9110-04-P

DEPARTMENT OF HOMELAND SECURITY

Coast Guard

46 CFR Parts 401, 403, and 404

USCG-2019-0736

RIN 1625-AC56

Great Lakes Pilotage Rates - 2020 Annual Review and Revisions to Methodology

AGENCY: Coast Guard, DHS.

ACTION: Notice of proposed rulemaking.

SUMMARY: In accordance with the Great Lakes Pilotage Act of 1960, the Coast Guard is proposing new base pilotage rates for the 2020 shipping season. This proposed rule would adjust the pilotage rates to account for changes in district operating expenses, an increase in the number of pilots, and anticipated inflation. The net result of decreased operating expenses for the associations compared to the previous year, inflation of pilot compensation, and the addition of one working pilot at the beginning of the 2020 shipping season is a 3 percent increase in pilotage rates. In addition, the Coast Guard is not proposing any surcharges for the 2020 shipping season, which would result in a 1 percent net decrease in pilotage costs compared to the 2019 season, when combined with the changes above. The Coast Guard is also proposing to clarify the rules related to the working capital fund.

DATES: Comments and related material must be received by the Coast Guard on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE

FEDERAL REGISTER].

ADDRESSES: You may submit comments identified by docket number USCG-2019-0736 using the Federal eRulemaking Portal at *https://www.regulations.gov*. See the "Public Participation and Request for Comments" portion of the **SUPPLEMENTARY INFORMATION** section for further instructions on submitting comments.

FOR FURTHER INFORMATION CONTACT: For information about this document, call or email Mr. Brian Rogers, Commandant (CG-WWM-2), Coast Guard; telephone 202-372-1535, email *Brian.Rogers*@uscg.mil, or fax 202-372-1914**.**

SUPPLEMENTARY INFORMATION:

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I. Public Participation and Request for Comments

The Coast Guard views public participation as essential to effective rulemaking, and will consider all comments and material received during the comment period. Your comment can help shape the outcome of this rulemaking. If you submit a comment, please include the docket number for this rulemaking, indicate the specific section of this document to which each comment applies, and provide a reason for each suggestion or recommendation.

We encourage you to submit comments through the Federal eRulemaking Portal at *https://www.regulations.gov*. If you cannot submit your material by using *https://www.regulations.gov*, call or email the person in the **FOR FURTHER INFORMATION CONTACT** section of this proposed rule for alternate instructions. Documents mentioned in this proposed rule, and all public comments, will be available in our online docket at *https://www.regulations.gov*, and can be viewed by following that website's instructions. Additionally, if you visit the online docket and sign up for email alerts, you will be notified when comments are posted or if a final rule is published.

We accept anonymous comments. All comments received will be posted without change to *https://www.regulations.gov* and will include any personal information you have provided. For more about privacy and submissions in response to this document, see DHS's Correspondence System of Records notice (84 FR 48645, September 26, 2018)..

We do not plan to hold a public meeting, but we will consider doing so if public comments indicate a meeting would be helpful. We would issue a separate **Federal Register** notice to announce the date, time, and location of such a meeting.

II. Abbreviations

AMOU	American Maritime Officers Union
APA	American Pilots Association
BLS	Bureau of Labor Statistics
CAD	Canadian dollars
CFR	Code of Federal Regulations
CPA	Certified public accountant
CPI	Consumer Price Index
DHS	Department of Homeland Security
FOMC	Federal Open Market Committee
FR	**Federal Register**
GLPA	Great Lakes Pilotage Authority (Canadian)
GLPAC	Great Lakes Pilotage Advisory Committee
GLPMS	Great Lakes Pilotage Management System
NAICS	North American Industry Classification System

NPRM	Notice of proposed rulemaking
NTSB	National Transportation Safety Board
OMB	Office of Management and Budget
PCE	Personal Consumption Expenditures
RA	Regulatory analysis
SBA	Small Business Administration
§	Section symbol
SLSMC	Saint Lawrence Seaway Management Corporation
U.S.C.	United States Code
USD	United States dollars

III. Executive Summary

Pursuant to the Great Lakes Pilotage Act of 1960 ("the Act"),[1] the Coast Guard regulates pilotage for oceangoing vessels on the Great Lakes and St. Lawrence Seaway — including setting the rates for pilotage services and adjusting them on an annual basis. The rates, which currently range from $306 to $733 per pilot hour (depending on which of the specific six areas pilotage service is provided), are paid by shippers to pilot associations. The three pilot associations, which are the exclusive U.S. source of registered pilots on the Great Lakes, use this revenue to cover operating expenses, maintain infrastructure, compensate working pilots, and train new pilots. We use a ratemaking methodology that we have developed since 2016 in accordance with our statutory requirements and regulations. Our ratemaking methodology calculates the revenue needed for each pilotage association (including operating expenses, compensation, and infrastructure needs), and then divides that amount by the expected shipping traffic over the course of the coming year to produce an hourly rate. This process is currently effected through a 10-step methodology which is explained in detail in this notice of proposed rulemaking (NPRM).

[1] Title 46 of the United States Code (U.S.C.) Chapter 93; Public Law 86-555, 74 Stat. 259, as amended.

In this NPRM, as part of our annual review, we are proposing new pilotage rates for 2020 based on the existing methodology. The result is an increase in rates for four areas, and a decrease in rates for the remaining two areas. These changes are due to a combination of four factors: (1) decreased total operating expenses for the associations compared to the previous year[2], (2) an increase in the amount of money needed for the working capital fund, (3) inflation of pilot compensation by 2 percent, and (4) the net addition of one working pilot at the beginning of the 2020 shipping season in District Two. Based on the ratemaking model discussed in this NPRM, we are proposing the rates shown in Table 1.

Table 1 — Current and Proposed Pilotage Rates on the Great Lakes

Area	Name	Final 2019 pilotage rate	Proposed 2020 pilotage rate
District One: Designated	St. Lawrence River	$733	$757
District One: Undesignated	Lake Ontario	$493	$462
District Two: Designated	Navigable waters from Southeast Shoal to Port Huron, MI	$603	$602
District Two: Undesignated	Lake Erie	$531	$573
District Three: Designated	St. Mary’s River	$594	$621
District Three: Undesignated	Lakes Huron, Michigan, and Superior	$306	$327

[2] Operating expenses decreased for the District One: Undesignated area and all of District Two. They increased for the District One: Designated area and all of District Three.

This proposed rule would impact 52 U.S. Great Lakes pilots, 3 pilot associations, and the owners and operators of an average of 266 oceangoing vessels that transit the Great Lakes annually. This proposed rule is not economically significant under Executive Order 12866 and would not affect the Coast Guard's budget or increase Federal spending. The estimated overall annual regulatory economic impact of this rate change is a net decrease of $225,658 in estimated payments made by shippers from the 2019 shipping season. Because the Coast Guard must review, and, if necessary, adjust rates each year, we analyze these as single-year costs and do not annualize them over 10 years. Section VIII of this preamble provides the regulatory impact analyses of this proposed rule.

IV. Basis and Purpose

The legal basis of this rulemaking is the Great Lakes Pilotage Act of 1960 ("the Act"),[3] which requires foreign vessels and U.S. vessels operating "on register, meaning " those U.S. vessels engaged in foreign trade, to use U.S. or Canadian registered pilots while transiting the U.S. waters of the St. Lawrence Seaway and the Great Lakes system.[4] For the U.S. registered Great Lakes pilots ("pilots"), the Act requires the Secretary to "prescribe by regulation rates and charges for pilotage services, giving consideration to the public interest and the costs of providing the services."[5] The Act requires that rates be established or reviewed and adjusted each year, not later than March 1.[6] The Act requires that base rates be established by a full ratemaking at least once every 5 years, and in years when base rates are not established, they must be reviewed and, if necessary,

[3] 46 U.S.C. Chapter 93; Public Law 86-555, 74 Stat. 259, as amended.
[4] 46 U.S.C. 9302(a)(1).
[5] 46 U.S.C. 9303(f).
[6] *Id.*

adjusted.[7] The Secretary's duties and authority under the Act have been delegated to the Coast Guard.[8]

The purpose of this NPRM is to propose new pilotage rates for the 2020 shipping season. The Coast Guard believes that the new rates would continue to promote pilot retention, ensure safe, efficient, and reliable pilotage services on the Great Lakes, and provide adequate funds to upgrade and maintain infrastructure.

V. Background

Pursuant to the Act, the Coast Guard, in conjunction with the Canadian Great Lakes Pilotage Authority (GLPA), regulates shipping practices and rates on the Great Lakes. Under Coast Guard regulations, all vessels engaged in foreign trade (often referred to as "salties") are required to engage U.S. or Canadian pilots during their transit through the regulated waters.[9] U.S. and Canadian "lakers," which account for most commercial shipping on the Great Lakes, are not affected.[10] Generally, vessels are assigned a U.S. or Canadian pilot depending on the order in which they transit a particular area of the Great Lakes and do not choose the pilot they receive. If a vessel is assigned a U.S. pilot, that pilot will be assigned by the pilotage association responsible for the particular district in which the vessel is operating, and the vessel operator will pay the pilotage association for the pilotage services. The Canadian GLPA establishes the rates for Canadian registered pilots.

The U.S. waters of the Great Lakes and the St. Lawrence Seaway are divided into three pilotage districts. Pilotage in each district is provided by an association certified by

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[7] *Id.*
[8] Department of Homeland Security (DHS) Delegation No. 0170.1, para. II (92.f).
[9] See title 46 of the Code of Federal Regulations (CFR) part 401.
[10] 46 U.S.C. 9302(f). A "laker" is a commercial cargo vessel especially designed for and generally limited to use on the Great Lakes.

the Coast Guard's Director of the Great Lakes Pilotage ("the Director") to operate a pilotage pool. The Saint Lawrence Seaway Pilotage Association provides pilotage services in District One, which includes all U.S. waters of the St. Lawrence River and Lake Ontario. The Lakes Pilotage Association provides pilotage services in District Two, which includes all U.S. waters of Lake Erie, the Detroit River, Lake St. Clair, and the St. Clair River. Finally, the Western Great Lakes Pilotage Association provides pilotage services in District Three, which includes all U.S. waters of the St. Mary's River; Sault Ste. Marie Locks; and Lakes Huron, Michigan, and Superior.

Each pilotage district is further divided into "designated" and "undesignated" areas, which is depicted in Table 2 below. Designated areas, classified as such by Presidential Proclamation, are waters in which pilots must, at all times, be fully engaged in the navigation of vessels in their charge [11]. Undesignated areas, on the other hand, are open bodies of water not subject to the same pilotage requirements. While working in undesignated areas, pilots must "be on board and available to direct the navigation of the vessel at the discretion of and subject to the customary authority of the master."[12] For these reasons, pilotage rates in designated areas can be significantly higher than those in undesignated areas.

Table 2 — Areas of the Great Lakes and St. Lawrence Seaway

District	**Pilotage Association**	**Designation**	**Area Number**[13]	**Area Name**[14]
One	Saint Lawrence Seaway Pilotage Association	Designated	1	St. Lawrence River
		Undesignated	2	Lake Ontario

[11] Presidential Proclamation 3385, *Designation of restricted waters under the Great Lakes Pilotage Act of 1960*, December 22, 1960.
[12] 46 U.S.C. 9302(a)(1)(B).
[13] Area 3 is the Welland Canal, which is serviced exclusively by the Canadian GLPA and, accordingly, is not included in the United States pilotage rate structure.
[14] The areas are listed by name in the Code of Federal Regulations, see 46 CFR 401.405.

Two	Lake Pilotage Association	Designated	5	Navigable waters from Southeast Shoal to Port Huron, MI
		Undesignated	4	Lake Erie
Three	Western Great Lakes Pilotage Association	Designated	7	St. Mary's River
		Undesignated	6	Lakes Huron and Michigan
		Undesignated	8	Lake Superior

Each pilot association is an independent business and is the sole provider of pilotage services in the district in which it operates. Each pilot association is responsible for funding its own operating expenses, maintaining infrastructure, acquiring and implementing technological advances, training personnel/partners and pilot compensation. The Coast Guard developed a 10-step ratemaking methodology to derive a pilotage rate that covers these expenses based on the estimated amount of traffic. The methodology is designed to measure how much revenue each pilotage association would need to cover expenses and provide competitive compensation to working pilots. We then divide that amount by the historic 10-year average for pilotage demand. We recognize that in years where traffic is above average, pilot associations will accrue more revenue than projected, while in years where traffic is below average, they will take in less. We believe that over the long term, however, this system ensures that infrastructure would be maintained and that pilots will receive adequate compensation and work a reasonable number of hours, with adequate rest between assignments, to ensure retention of highly trained personnel.

Over the past 4 years, the Coast Guard has made adjustments to the Great Lakes pilotage ratemaking methodology. In 2016, we made significant changes to the methodology, moving to an hourly billing rate for pilotage services and changing the compensation benchmark to a more transparent model. In 2017, we added additional steps to the ratemaking methodology, including new steps that accurately account for the additional revenue produced by the application of weighting factors (discussed in detail in Steps 7 through 9 of this preamble). In 2018, we revised the methodology by which we develop the compensation benchmark, based upon U.S. mariners rather than Canadian registered pilots. The current methodology, which was finalized in the Great Lakes Pilotage Rates-2019 Annual Review and Revisions to Methodology final rule (84 FR 20551), published May 10, 2019, is designed to accurately capture all of the costs and revenues associated with Great Lakes pilotage requirements and produce an hourly rate that adequately and accurately compensates pilots and covers expenses. The current methodology is summarized in the section below.

Summary of Ratemaking Methodology

As stated above, the ratemaking methodology, outlined in 46 CFR sections 404.101 through 404.110, consists of 10 steps that are designed to account for the revenues needed and total traffic expected in each district. The result is an hourly rate, determined separately for each of the areas administered by the Coast Guard.

In Step 1, "Recognize previous operating expenses," (§ 404.101) the Director reviews audited operating expenses from each of the three pilotage associations. This number forms the baseline amount that each association is budgeted. Because of the time delay between when the association submits raw numbers and the Coast Guard receives audited numbers, this number is 3 years behind the projected year of expenses. So in calculating the 2020 rates in this proposal, we are beginning with the audited expenses from the 2017 shipping season.

While each pilotage association operates in an entire district, the Coast Guard tries to determine costs by area. Thus, with regard to operating expenses, we allocate certain operating expenses to undesignated areas, and certain expenses to designated areas. In some cases (e.g., insurance for applicant pilots who operate in undesignated areas only), we can allocate the costs based on where they are actually accrued. In other situations (e.g., general legal expenses), expenses are distributed between designated and undesignated waters on a *pro rata* basis, based upon the proportion of income forecasted from the respective portions of the district.

In Step 2, "Project operating expenses, adjusting for inflation or deflation," (§ 404.102) the Director develops the 2020 projected operating expenses. To do this, we apply inflation adjustors for 3 years to the operating expense baseline received in Step 1. The inflation factors used are from the Bureau of Labor Statistics' (BLS) Consumer Price Index (CPI) for the Midwest Region, or, if not available, the Federal Open Market Committee (FOMC) median economic projections for Personal Consumption Expenditures (PCE) inflation. This step produces the total operating expenses for each area and district.

In Step 3, "Estimate number of working pilots," (§ 404.103) the Director calculates how many pilots are needed for each district. To do this, we employ a "staffing model," described in § 401.220, paragraphs (a)(1) through (a)(3), to estimate how many pilots would be needed to handle shipping during the beginning and close of the season. This number is helpful in providing guidance to the Director in approving an appropriate number of credentials for pilots.

For the purpose of the ratemaking calculation, we determine the number of working pilots provided by the pilotage associations (see § 404.103), which is what we use to determine how many pilots need to be compensated via the pilotage fees collected.

In Step 4, "Determine target pilot compensation benchmark," (§ 404.104) the Director determines the revenue needed for pilot compensation in each area and district. This step contains two processes. In previous years, in the first process, we calculated the total compensation for each pilot using a "compensation benchmark." Next, we multiplied the individual pilot compensation by the number of working pilots for each area and district (from Step 3), producing a figure for total pilot compensation. Because pilots are paid by the associations, but the costs of pilotage is divided by area for accounting purposes, we assigned a certain number of pilots for the designated areas and a certain number of pilots for the undesignated areas to determine the revenues needed for each area. To make the determination of how many pilots to assign, we used the staffing model designed to determine the total number of pilots, described in Step 3, above.

For the 2020 ratemaking, the Coast Guard is proposing to update the benchmark compensation model in accordance with § 404.104(b), switching from using the American Maritime Officers Union (AMOU) 2015 aggregated wage and benefit information, to using the 2019 compensation benchmark. Prior to 2016, the Coast Guard based the compensation benchmark on data provided by the AMOU regarding its contract for first mates on the Great Lakes. However, in 2016 the AMOU elected to no longer provide this data to the Coast Guard, and thus, in the 2016 ratemaking, we used average compensation for a Canadian pilot plus a 10 percent adjustment. As a result of a legal challenge filed by the shipping industry, the court found that the Coast Guard did not adequately support the 10 percent addition to the Canadian GLPA benchmark, and thus its use was deemed arbitrary and capricious. The Coast Guard then based the 2018 benchmark on data provided by the AMOU regarding its contract for first mates on the Great Lakes in the 2011 to 2015 period, and adjusted it for inflation using FOMC median economic projections for PCE inflation. We used the information provided by the AMOU because it was the most recent publicly available information to which we had access. This benchmark has successfully achieved the Coast Guard's goals of safety through rate and compensation stability while also promoting recruitment and retention of qualified United States registered pilots. Therefore, the Coast Guard proposes to use this as the compensation benchmark for future rates.

In the second process of Step 4, set forth in § 404.104(c), the Director determines the total compensation figure for each District. To do this, the Director multiplies the compensation benchmark by the number of working pilots for each area and district (from Step 3), producing a figure for total pilot compensation.

In Step 5, "Project working capital fund," (§ 404.105) the Director calculates a value that is added to pay for needed capital improvements. This value is calculated by adding the total operating expenses (derived in Step 2) to the total pilot compensation (derived in Step 4), and multiplying that figure by the preceding year's average annual rate of return for new issues of high-grade corporate securities. This figure constitutes the "working capital fund" for each area and district.

In Step 6, "Project needed revenue," (§ 404.106) the Director simply adds up the totals produced by the preceding steps. The projected operating expense for each area and district (from Step 2) is added to the total pilot compensation (from Step 4) and the working capital fund contribution (from Step 5). The total figure, calculated separately for each area and district, is the "needed revenue."

In Step 7, "Calculate initial base rates," (§ 404.107) the Director calculates an hourly pilotage rate to cover the needed revenue as calculated in Step 6. This step consists of first calculating the 10-year hours of traffic average for each area. Next, the revenue needed in each area (calculated in Step 6) is divided by the 10-year hours of traffic average to produce an initial base rate.

An additional element, the "weighting factor," is required under § 401.400. Pursuant to that section, ships pay a multiple of the "base rate" as calculated in Step 7 by a number ranging from 1.0 (for the smallest ships, or "Class I" vessels) to 1.45 (for the largest ships, or "Class IV" vessels). As this significantly increases the revenue collected, we need to account for the added revenue produced by the weighting factors to ensure that shippers are not overpaying for pilotage services.

In Step 8, "Calculate average weighting factors by area," (§ 404.108) the Director calculates how much extra revenue, as a percentage of total revenue, has historically been produced by the weighting factors in each area. We do this by using a historical average of the applied weighting factors for each year since 2014 (the first year the current weighting factors were applied).

In Step 9, "Calculate revised base rates," (§ 404.109) the Director modifies the base rates by accounting for the extra revenue generated by the weighting factors. We do this by dividing the initial pilotage rate for each area (from Step 7) by the corresponding average weighting factor (from Step 8), to produce a revised rate.

In Step 10, “Review and finalize rates,” (§ 404.110) often referred to informally as “director’s discretion,” the Director reviews the revised base rates (from Step 9) to ensure that they meet the goals set forth in the Act and 46 CFR 404.1(a), which include promoting efficient, safe, and reliable pilotage service on the Great Lakes; generating sufficient revenue for each pilotage association to reimburse necessary and reasonable operating expenses; compensating trained and rested pilots fairly; and providing appropriate profit for improvements. Because it is our goal to be as transparent as possible in our ratemaking procedure, we use this step sparingly to adjust rates.

After the base rates are set, § 401.401 permits the Coast Guard to apply surcharges. We previously used surcharges to pay for the training of new pilots, rather than incorporating training costs into the overall “needed revenue” used in the calculation of the base rates. The surcharge accelerates the reimbursement of certain necessary and reasonable expense. Last year, we applied a surcharge to account for the associations’ expenses for the Applicant Trainee and Apprentice Pilots, which included providing a stipend, lodging, training, and per diem. We implemented these surcharges because of a large number of pending pilot retirements, and a large amount of recruitment at the pilot associations. Without the surcharge, the associations would have been reimbursed for expenses associated with training new pilots 3 years later via the rate. However, any pilot who retired prior to that 3-year date would not have been reimbursed. Therefore, we applied a surcharge to ensure that these pilots would not have to incur the costs of training their replacements. As the vast majority of registered pilots are not anticipated to reach the regulatory required retirement age of 70 in the next 20 years, we believe that pilot associations are now able to plan for the costs associated with retirements without relying on the Coast Guard to impose surcharges.

VI. Discussion of Proposed Methodological and Other Changes

For 2020, the Coast Guard is proposing no new methodological changes to the ratemaking model. We believe that the methodology laid out in the 2019 Annual Review would produce rates for the 2020 shipping season that would ensure safe and reliable pilotage services are available on the Great Lakes.

In previous years, several commenters have raised issues regarding the working capital fund. The purpose of the working capital fund is to ensure that associations have a way to set aside money to pay for high cost items and infrastructure improvements. The Coast Guard is proposing changes in this proposed rule to codify the procedures related to the use of funds and accounting requirements related to the working capital fund.

The Coast Guard is proposing two changes to the regulatory text related to the working capital fund, formerly called "return on investment." In 46 CFR 404.106, the Coast Guard proposes to change the words "return on investment" to "working capital fund," as that is the current name for that fund. This change was made in the Great Lakes Pilotage Rates 2017 Annual Review final rule (82 FR 41466, August 31, 2017), but the entry was overlooked in that rule. Prior to 2017, the working capital fund described in 46 CFR 404.105 was called "return on investment." In the Great Lakes Pilotage Rates 2017 Annual Review final rule (82 FR 41466, August 31, 2017), the Coast Guard changed the name of that fund to the "working capital fund." However, the 2017 final rule did not change a reference to "return on investment" in 46 CFR 404.106. This proposed change corrects that oversight so that 46 CFR 404.105 and 46 CFR 404.106 will use consistent terminology. In addition, the Coast Guard proposes to incorporate into regulations the policy currently being followed by the pilots associations regarding these funds. The Coast Guard proposes to add text to 46 CFR 403.110 requiring each pilot association set aside, in a separate account, an amount at least equal to the amount calculated in Step 5 of the ratemaking, and place restrictions on how those funds are expended. Under the proposed rule, pilot associations can only apply these funds in the working capital fund account to capital projects, infrastructure improvements, infrastructure maintenance, and non-recurring technology purchases that are necessary for providing pilotage services. The pilot associations may grow the working capital fund over successive shipping seasons for a future significant purchase, including for a down payment on a purchase that would also be financed in part. If needed, pilot associations could request a waiver from the requirements from the Director. We invite interested parties to provide their input and recommendations on this issue.

VII. Discussion of Proposed Rate Adjustments

In this NPRM, based on the current methodology described in the previous section, we are proposing new pilotage rates for 2020. We propose to conduct the 2020 ratemaking as an "interim year," as was done in 2019, rather than a full ratemaking as was conducted in 2018. Thus, the Coast Guard proposes to adjust the compensation benchmark pursuant to § 404.104(b) for this purpose, rather than § 404.104(a).

This section discusses the proposed rate changes using the ratemaking steps provided in 46 CFR part 404. We will detail all ten steps of the ratemaking procedure for each of the three districts to show how we arrived at the proposed new rates.

District One

A. Step 1: Recognize previous operating expenses.

Step 1 in our ratemaking methodology requires that the Coast Guard review and recognize the previous year's operating expenses (§ 404.101). To do so, we begin by reviewing the independent accountant's financial reports for each association's 2017 expenses and revenues.[15] For accounting purposes, the financial reports divide expenses into designated and undesignated areas. In certain instances, costs are applied to the designated or undesignated area based on where they were actually accrued. For example, costs for "Applicant pilot license insurance" in District One are assigned entirely to the undesignated areas, as applicant pilots work exclusively in those areas. For costs accrued by the pilot associations generally, for example, such as employee benefits, the cost is divided between the designated and undesignated areas on a *pro rata* basis. The recognized operating expenses for District One is shown in Table 3.

As noted above, in 2016, the Coast Guard began authorizing surcharges to cover the training costs of applicant pilots. The surcharges were intended to reimburse pilot associations for training applicants in a more timely fashion than if those costs were listed as operating expenses, which would have required 3 years to reimburse. The rationale for using surcharges to cover these expenses, rather than including the costs as operating expenses, was so these non-recurring costs could be recovered in a more timely fashion, and so that retiring pilots would not have to cover the costs of training their replacements. Because operating expenses incurred are not actually recouped for a period of 3 years, the Coast Guard added a $150,000 surcharge per applicant pilot, beginning in 2016, to

[15] These reports are available in the docket for this rulemaking (see Docket # USCG-2019-0736).

recoup those costs in the year incurred. Now that these issues are no longer a concern, we are not proposing any surcharges for the 2020 shipping season.

We also propose to deduct 3 percent of the "shared counsel" expenses, as stated in the auditor's reports for each district to account for lobbying expenditures. Pursuant to 46 CFR 404.2(c)(3), lobbying expenses are not permitted to be recouped as operating expenses.

For District One, we do not propose any Director's adjustments, other than the surcharge adjustment and lobbying expenses described above. Other adjustments have been made by the auditors and are explained in the auditor's reports, which are available in the docket for this rulemaking where indicated under the **ADDRESSES** portion of the preamble.

Table 3 — 2017 Recognized Expenses for District One

	District One		
	Designated	Undesignated	TOTAL
Reported Expenses for 2017	St. Lawrence River	Lake Ontario	
Operating Expenses			
Other Pilotage Costs			
Subsistence/Travel- Pilot	$440,456	$293,637	$734,093
Certified Public Accountant (CPA) Deduction	-$189	-$126	-$315
Subsistence/Travel- Trainee	$22,008	$14,672	$36,680
License Insurance- Pilots	$48,620	$32,413	$81,033
License Insurance-Trainee	$0	$0	$0
Payroll Taxes -Pilots	$137,788	$91,858	$229,646
Payroll Taxes - Trainee	$705	$470	$1,175
Training - Full Pilots Continuing Education	$32,197	$21,464	$53,661
Cell and Internet Allowance - Pilots	$24,312	$16,208	$40,520
Cell and Internet Allowance - Applicants	$2,210	$1,474	$3,684
Other	$675	$450	$1,125

Total Other Pilotage Costs	**$708,782**	**$472,520**	**$1,181,302**
Pilot Boat and Dispatch Costs			
Pilot Boat Expense	$297,942	$198,628	$496,570
Dispatch Expense	$50,100	$33,400	$83,500
Payroll Taxes	$19,706	$13,137	$32,843
Total Pilot and Dispatch Costs	**$367,748**	**$245,165**	**$612,913**
Administrative Expenses			
Legal - General Counsel	$2,098	$1,399	$3,497
Legal - Shared Counsel (K&L Gates)	$26,835	$17,890	$44,725
CPA Adjustment	-$5,020	-$3,347	-$8,367
Office Rent	$0	$0	$0
Insurance	$21,593	$14,395	$35,988
Employee Benefits	$7,720	$5,146	$12,866
Payroll Taxes	$6,665	$4,444	$11,109
Other Taxes	$70,942	$47,294	$118,236
Travel	$4,091	$2,728	$6,819
Depreciation/Auto Leasing/other	$94,944	$63,296	$158,240
Interest	$35,143	$23,428	$58,571
Dues and Subscriptions	$19,471	$12,981	$32,452
Utilities	$18,479	$12,320	$30,799
Salaries	$69,953	$46,636	$116,589
Accounting/Professional Fees	$6,111	$4,074	$10,185
Pilot Training	$0	$0	$0
Applicant Pilot Training	$0	$0	$0
Other	$26,338	$17,559	$43,897
Total Administrative Expenses	**$405,363**	**$270,243**	**$675,606**
		-	-
Total Operating Expenses (Other Costs + Pilot Boats + Admin)	**$1,481,893**	**$987,928**	**$2,469,821**
Proposed Adjustments (Director)			
Total Director's Adjustments	**$0**	**$0**	**$0**
Total Operating Expenses (OpEx + Adjustments)	**$1,481,893**	**$987,928**	**$2,469,821**

B. Step 2: Project operating expenses, adjusting for inflation or deflation.

Having identified the recognized 2017 operating expenses in Step 1, the next step is to estimate the current year's operating expenses by adjusting those expenses for inflation over the 3-year period. We calculate inflation using the BLS data from the CPI for the Midwest Region of the United States for the 2018 inflation rate.[16] Because the BLS does not provide forecasted inflation data, we use economic projections from the Federal Reserve for the 2019 and 2020 inflation modification.[17] Based on that information, the calculations for Step 2 are as follows:

Table 4 — Adjusted Operating Expenses for District One

	District One		
	Designated	**Undesignated**	**Total**
Total Operating Expenses (Step 1)	$1,481,893	$987,928	$2,469,821
2018 Inflation Modification (@1.9%)	$28,156	$18,771	$46,927
2019 Inflation Modification (@1.8%)	$27,181	$18,121	$45,302
2020 Inflation Modification (@2%)	$30,745	$20,496	$51,241
Adjusted 2020 Operating Expenses	**$1,567,975**	**$1,045,316**	**$2,613,291**

C. Step 3: Estimate number of working pilots.

In accordance with the text in § 404.103, we estimate the number of working pilots in each district. We determine the number of working pilots based on data provided by the Saint Lawrence Seaway Pilots Association. Using these numbers, we estimate that there will be 17 working pilots in 2020 in District One. Furthermore, based on the seasonal staffing model discussed in the 2017 ratemaking (see 82 FR 41466), we assign a certain number of pilots to designated waters and a certain number to

[16] The 2018 inflation rate is available at https://www.bls.gov/regions/midwest/data/consumerpriceindexhistorical_midwest_table.pdf. Specifically the CPI is defined as “All Urban Consumers (CPI-U), All Items, 1982-4=100”. Downloaded June 12, 2019.
[17] The 2019 and 2020 inflation rates are available at https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20190320.pdf. We used the PCE median inflation value found in table 1, Downloaded June 12, 2019.

undesignated waters, as shown in Table 5. These numbers are used to determine the amount of revenue needed in their respective areas.

Table 5 — Authorized Pilots

Item	**District One**
Maximum number of pilots (per § 401.220(a)) [18]	17
2020 Authorized pilots (total)	17
Pilots assigned to designated areas	10
Pilots assigned to undesignated areas	7

D. Step 4: Determine target pilot compensation benchmark.

In this step, we determine the total pilot compensation for each area. As we are proposing an "interim" ratemaking this year, we propose to follow the procedure outlined in paragraph (b) of § 404.104, which adjusts the existing compensation benchmark by inflation. Because we do not have a value for the employment cost index for 2020, we multiply the 2019 compensation benchmark of $359,887 by the Median PCE Inflation value of 2.0 percent.[19] Based on the projected 2020 inflation estimate, the proposed compensation benchmark for 2020 is $367,085 per pilot.

Next, we certify that the number of pilots estimated for 2020 is less than or equal to the number permitted under the staffing model in § 401.220(a). The staffing model suggests that the number of pilots needed is 17 pilots for District One, which is more than or equal to the numbers of working pilots provided by the pilot associations. In accordance with § 404.104(c), we use the revised target individual compensation level to derive the total pilot compensation by multiplying the individual target compensation by the estimated number of working pilots for District One, as shown in Table 6.

[18] For a detailed calculation, refer to the Great Lakes Pilotage Rates - 2017 Annual Review final rule, which contains the staffing model. See 82 FR 41466, table 6 at 41480 (August 31, 2017).
[19] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20190320.pdf.

Table 6 — Target Compensation for District One

	District One		
	Designated	Undesignated	Total
Target Pilot Compensation	$367,085	$367,085	$367,085
Number of Pilots	10	7	17
Total Target Pilot Compensation	**$3,670,850**	**$2,569,595**	**$6,240,445**

E. Step 5: Project working capital fund.

Next, we calculate the working capital fund revenues needed for each area. First, we add together the figures for projected operating expenses and total pilot compensation for each area. Next, we find the preceding year's average annual rate of return for new issues of high-grade corporate securities. Using Moody's data, the number is 3.93 percent.[20] By multiplying the two figures, we obtain the working capital fund contribution for each area, as shown in Table 7.

Table 7— Working Capital Fund Calculation for District One

	District One		
	Designated	Undesignated	Total
Adjusted Operating Expenses (Step 2)	$1,567,975	$1,045,316	$2,613,291
Total Target Pilot Compensation (Step 4)	$3,670,850	$2,569,595	$6,240,445
Total 2018 Expenses	$5,238,825	$3,614,911	$8,853,736
Working Capital Fund (3.93%)	$205,886	$142,066	$347,952

F. Step 6: Project needed revenue.

In this step, we add together all of the expenses accrued to derive the total revenue needed for each area. These expenses include the projected operating expenses (from

[20] Moody's Seasoned Aaa Corporate Bond Yield, average of 2018 monthly data. The Coast Guard uses the most recent year of complete data. Moody's is taken from Moody's Investors Service, which is a bond credit rating business of Moody's Corporation. Bond ratings are based on creditworthiness and risk. The rating of "Aaa" is the highest bond rating assigned with the lowest credit risk. See https://fred.stlouisfed.org/series/AAA . (June 12, 2019)

Step 2), the total pilot compensation (from Step 4), and the working capital fund contribution (from Step 5). We show these calculations in Table 8.

Table 8 — Revenue Needed for District One

	District One		
	Designated	Undesignated	Total
Adjusted Operating Expenses (Step 2, See Table 4)	$1,567,975	$1,045,316	$2,613,291
Total Target Pilot Compensation (Step 4, See Table 6)	$3,670,850	$2,569,595	$6,240,445
Working Capital Fund (Step 5, See Table 7)	$205,886	$142,066	$347,952
Total Revenue Needed	$5,444,711	$3,756,977	$9,201,688

G. Step 7: Calculate initial base rates.

Having determined the revenue needed for each area in the previous six steps, to develop an hourly rate we divide that number by the expected number of hours of traffic. Step 7 is a two-part process. In the first part, we calculate the 10-year average of traffic in District One, using the total time on task or pilot bridge hours.[21] Because we calculate separate figures for designated and undesignated waters, there are two parts for each calculation. We show these values in Table 9.

Table 9 — Time on Task for District One (Hours)

	District One	
Year	**Designated**	**Undesignated**
2018	6,943	8,445
2017	7,605	8,679
2016	5,434	6,217
2015	5,743	6,667
2014	6,810	6,853

[21] To calculate the time on task for each district, the Coast Guard uses billing data from the Great Lakes Pilotage Management System (GLPMS). We pull the data from the system filtering by district, year, job status (we only include closed jobs), and flagging code (we only include U.S. jobs). After we have downloaded the data, we remove any overland transfers from the dataset, if necessary, and sum the total bridge hours, by area. We then subtract any non-billable delay hours from the total.

2013	5,864	5,529
2012	4,771	5,121
2011	5,045	5,377
2010	4,839	5,649
2009	3,511	3,947
Average	**5,657**	**6,248**

Next, we derive the initial hourly rate by dividing the revenue needed by the average number of hours for each area. This produces an initial rate, which is necessary to produce the revenue needed for each area, assuming the amount of traffic is as expected. We present the calculations for each area in Table 10.

Table 10 — Initial Rate Calculations for District One

	Designated	Undesignated
Needed revenue (Step 6)	$5,444,711	$3,756,977
Average time on task (hours)	5,657	6,248
Initial rate	$962	$601

H. Step 8: Calculate average weighting factors by Area.

In this step, we calculate the average weighting factor for each designated and undesignated area. We collect the weighting factors, set forth in 46 CFR 401.400, for each vessel trip. Using this database, we calculate the average weighting factor for each area using the data from each vessel transit from 2014 onward, as shown in Tables 11 and 12.[22]

Table 11 — Average Weighting Factor for District One, Designated Areas

Vessel Class/Year	Number of Transits	Weighting factor	Weighted Transits
Class 1 (2014)	31	1	31
Class 1 (2015)	41	1	41

[22] To calculate the number of transits by vessel class, we use the billing data from GLPMS, filtering by district, year, job status (we only include closed jobs), and flagging code (we only include U.S. jobs). We then count the number of jobs by vessel class and area.

Class 1 (2016)	31	1	31
Class 1 (2017)	28	1	28
Class 1 (2018)	54	1	54
Class 2 (2014)	285	1.15	327.75
Class 2 (2015)	295	1.15	339.25
Class 2 (2016)	185	1.15	212.75
Class 2 (2017)	352	1.15	404.8
Class 2 (2018)	559	1.15	642.85
Class 3 (2014)	50	1.3	65
Class 3 (2015)	28	1.3	36.4
Class 3 (2016)	50	1.3	65
Class 3 (2017)	67	1.3	87.1
Class 3 (2018)	86	1.3	111.8
Class 4 (2014)	271	1.45	392.95
Class 4 (2015)	251	1.45	363.95
Class 4 (2016)	214	1.45	310.3
Class 4 (2017)	285	1.45	413.25
Class 4 (2018)	393	1.45	569.85
Total	3,556	-	4,528
Average weighting factor (weighted transits/number of transits)	-	1.27	-

Table 12 — Average Weighting Factor for District One, Undesignated Areas

Vessel Class/Year	Number of Transits	Weighting factor	Weighted Transits
Class 1 (2014)	25	1	25
Class 1 (2015)	28	1	28
Class 1 (2016)	18	1	18
Class 1 (2017)	19	1	19
Class 1 (2018)	22	1	22
Class 2 (2014)	238	1.15	273.7
Class 2 (2015)	263	1.15	302.45
Class 2 (2016)	169	1.15	194.35
Class 2 (2017)	290	1.15	333.5
Class 2 (2018)	352	1.15	404.8
Class 3 (2014)	60	1.3	78

Class 3 (2015)	42	1.3	54.6
Class 3 (2016)	28	1.3	36.4
Class 3 (2017)	45	1.3	58.5
Class 3 (2018)	63	1.3	81.9
Class 4 (2014)	289	1.45	419.05
Class 4 (2015)	269	1.45	390.05
Class 4 (2016)	222	1.45	321.9
Class 4 (2017)	285	1.45	413.25
Class 4 (2018)	382	1.45	553.9
Total	3,109	-	4,028
Average weighting factor (weighted transits/number of transits)	-	1.30	-

I. Step 9: Calculate revised base rates.

In this step, we revise the base rates so that once the impact of the weighting factors are considered; the total cost of pilotage would be equal to the revenue needed. To do this, we divide the initial base rates, calculated in Step 7, by the average weighting factors calculated in Step 8, as shown in Table 13.

Table 13 — Revised Base Rates for District One

Area	Initial rate (Step 7)	Average weighting factor (Step 8)	Revised Rate (Initial rate/ Average weighting factor)
District One: Designated	$962	1.27	$757
District One: Undesignated	$601	1.30	$462

J. Step 10: Review and finalize rates.

In this step, the Director reviews the rates set forth by the staffing model and ensures that they meet the goal of ensuring safe, efficient, and reliable pilotage. To establish that the proposed rates do meet the goal of ensuring safe, efficient and reliable pilotage, the Director considers whether the proposed rates incorporate appropriate compensation for pilots to handle heavy traffic periods and whether there is a sufficient number of pilots to handle those heavy traffic periods. The Director also considers whether the proposed rates would cover operating expenses and infrastructure costs, and takes average traffic and weighting factors into consideration. Based on this information, the Director is not proposing any alterations to the rates in this step. We propose to modify the text in § 401.405(a) to reflect the final rates shown in Table 14.

Table 14 — Proposed Final Rates for District One

Area	Name	Final 2019 pilotage rate	Proposed 2020 pilotage rate
District One: Designated	St. Lawrence River	$733	$757
District One: Undesignated	Lake Ontario	$493	$462

District Two

A. Step 1: Recognize previous operating expenses.

Step 1 in our ratemaking methodology requires that the Coast Guard review and recognize the previous year's operating expenses (§ 404.101). To do so, we begin by reviewing the independent accountant's financial reports for each association's 2017 expenses and revenues.[23] For accounting purposes, the financial reports divide expenses into designated and undesignated areas. In certain instances, costs are applied to the designated or undesignated area based on where they were actually incurred. For example, costs for "Applicant pilot license insurance" in District One are assigned

[23] These reports are available in the docket for this rulemaking (see Docket No. USCG-2019-0736).

entirely to the undesignated areas, as applicant pilots work exclusively in those areas. For costs accrued by the pilot associations generally, such as employee benefits, for example, the cost is divided between the designated and undesignated areas on a *pro rata* basis. The recognized operating expenses for District Two are shown in Table 15.

In addition to the surcharge adjustment and lobbying expenses described for District One in Section VII A. *Step 1: Recognize previous operating expenses*, and the adjustments made by the auditors, as explained in the auditors' reports (available in the docket where indicated in the **ADDRESSES** portion of this document), the Director is proposing one adjustment to District Two's operating expenses. The Director proposes an adjustment to disallow $120,350 in "housing allowance" expenses. The Coast Guard agrees with the Internal Revenue Service (IRS) that an employer-provided housing allowance is a fringe benefit, and we consider it to be employee compensation. In addition, we expect those appointed as registered pilots to live in the region in which they are employed. We expect that if a pilot chooses to live outside their region of employment, they should have to pay for their accommodations, and this cost should not be passed on to the shippers via the rate. Therefore, we propose not including any housing allowance the district chooses to provide their pilots in the ratemaking calculation.

Table 15 — 2017 Recognized Expenses for District Two

	District Two		
	Undesignated	Designated	TOTAL
Reported Expenses for 2017	Lake Erie	Southeast Shoal to Port Huron	
Operating Expenses			
Other Pilotage Costs			
Subsistence/Travel	$116,402	$174,602	$291,004

- Pilots			
Subsistence/Travel - Applicants	$52,212	$78,317	$130,529
Housing Allowance - Pilots	$30,212	$45,318	$75,530
Housing Allowance - Applicants	$17,928	$26,892	$44,820
Winter Meeting Allowance	$8,280	$12,420	$20,700
Telecommunication Allowance	$11,662	$17,493	$29,155
Payroll taxes - Pilots	$57,126	$85,688	$142,814
Payroll taxes - Applicants	$26,025	$39,038	$65,063
License Insurance	$8,326	$12,490	$20,816
Training	$2,079	$3,119	$5,198
Total Other Pilotage Costs	**$330,252**	**$495,377**	**$825,629**
Pilot Boat and Dispatch Costs			
Pilot Boat Cost	$217,514	$326,272	$543,786
CPA Adjustment	-$34,860	-$52,291	-$87,151
Dispatch Expense	$0	$0	$0
Employee Benefits	$78,680	$118,020	$196,700
Payroll Taxes	$12,230	$18,344	$30,574
Total Pilot and Dispatch Costs	**$273,564**	**$410,345**	**$683,909**
Cost Affiliated Entity Expenses			
Office Rent	$26,275	$39,413	$65,688
CPA Adjustment	-$4,742	-$7,113	-$11,855
Total Affiliated Entity Expense	**$21,533**	**$32,300**	**$53,833**
Administrative Expenses			
Legal - General Counsel	$3,505	$5,258	$8,763
Legal - Shared Counsel (K&L Gates)	$15,604	$23,405	$39,009
CPA Adjustment	-$7,086	-$10,630	-$17,716
Employee benefits - Admin employees	$79,534	$119,301	$198,835
Workman’s	$48,663	$72,994	$121,657

Compensation - Pilots			
Payroll taxes-Admin Employees	$6,872	$10,308	$17,180
Insurance	$10,844	$16,265	$27,109
Other Taxes	$12,065	$18,097	$30,162
Admin Travel	$6,316	$9,475	$15,791
Depreciation/Auto Lease/Other	$24,168	$36,251	$60,419
Interest	$21,526	$32,288	$53,814
CPA Adjustment	-$20,920	-$31,379	-$52,299
Dues and subscriptions	$10,760	$16,140	$26,900
CPA Adjustment	-$581	-$871	-$1,452
Utilities	$6,277	$9,415	$15,692
Salaries- Admin employees	$60,568	$90,852	$151,420
Accounting	$14,507	$21,761	$36,268
Other	$13,936	$20,904	$34,840
Total Administrative Expenses	**$306,558**	**$459,834**	**$766,392**
Total Operating Expenses (Other Costs + Pilot Boats + Admin)	**$931,907**	**$1,397,856**	**$2,329,763**
Proposed Adjustments (Director)			
Housing allowance for Pilots	-$30,212	-$45,318	-$75,530
Housing allowance for Applicants	-$17,928	-$26,892	-$44,820
Total Director's Adjustments	**-$48,140**	**-$72,210**	**-$120,350**
Total Operating Expenses (OpEx + Adjustments)	**$883,767**	**$1,325,646**	**$2,209,413**

B. Step 2: Project operating expenses, adjusting for inflation or deflation.

Having identified the recognized 2017 operating expenses in Step 1, the next step is to estimate the current year's operating expenses by adjusting those expenses for inflation over the 3-year period. We calculate inflation using the BLS data from the CPI for the Midwest Region of the United States for the 2018 inflation rate. [24] Because the BLS does not provide forecasted inflation data, we use economic projections from the Federal Reserve for the 2019 and 2020 inflation modification.[25] Based on that information, the calculations for Step 1 are as follows:

Table 16 — Adjusted Operating Expenses for District Two

Item	District Two		
	Undesignated	**Designated**	**Total**
Total Operating Expenses (Step 1)	$883,767	$1,325,646	$2,209,413
2018 Inflation Modification (@1.9%)	$16,792	$25,187	$41,979
2019 Inflation Modification (@1.8%)	$16,210	$24,315	$40,525
2020 Inflation Modification (@2%)	$18,335	$27,503	$45,838
Adjusted 2020 Operating Expenses	**$935,104**	**$1,402,651**	**$2,337,755**

C. Step 3: Estimate number of working pilots.

In accordance with the text in § 404.103, we estimate the number of working pilots in each district. We determine the number of working pilots based on input from the Lakes Pilots Association. Using these numbers, we estimate that there will be 15 working pilots in 2020 in District Two. Furthermore, based on the seasonal staffing model discussed in the 2017 ratemaking (see 82 FR 41466), we assign a certain number of pilots to designated waters and a certain number to undesignated waters, as shown in Table 17. These numbers are used to determine the amount of revenue needed in their respective areas.

Table 17— Authorized pilots

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[24] See footnote 13

[25] See footnote 14

Item	**District Two**
Maximum number of pilots (per § 401.220(a))[26]	15
2020 Authorized pilots (total)	15
Pilots assigned to designated areas	7
Pilots assigned to undesignated areas	8

D. Step 4: Determine target pilot compensation benchmark.

In this step, we determine the total pilot compensation for each area. As we are proposing an "interim" ratemaking this year, we propose to follow the procedure outlined in paragraph (b) of § 404.104, which adjusts the existing compensation benchmark by inflation. Because we do not have a value for the employment cost index for 2020, we multiply the 2019 compensation benchmark of $359,887 by the Median PCE Inflation value of 2.0 percent.[27] Based on the projected 2020 inflation estimate, the proposed compensation benchmark for 2020 is $367,085 per pilot.

Next, we certify that the number of pilots estimated for 2020 is less than or equal to the number permitted under the staffing model in § 401.220(a). The staffing model suggests that the number of pilots needed is 15 pilots for District Two, which is more than or equal to the numbers of working pilots provided by the pilot associations.[28]

Thus, in accordance with § 404.104(c), we use the revised target individual compensation level to derive the total pilot compensation by multiplying the individual target compensation by the estimated number of working pilots for District Two, as shown in Table 18.

[26] For a detailed calculation refer to the Great Lakes Pilotage Rates - 2017 Annual Review final rule, which contains the staffing model. See 82 FR 41466, table 6 at 41480 (August 31, 2017).
[27] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20190320.pdf.
[28] See Table 6 of the Great Lakes Pilotage Rates - 2017 Annual Review final rule, 82 FR 41466 at 41480 (August 31, 2017). The methodology of the staffing model is discussed at length in the final rule (see pages 41476-41480 for a detailed analysis of the calculations).

Table 18 — Target Compensation for District Two

	Undesignated	Designated	Total
Target Pilot Compensation	$367,085	$367,085	$367,085
Number of Pilots	8	7	15
Total Target Pilot Compensation	**$2,936,680**	**$2,569,595**	**$5,506,275**

E. Step 5: Project working capital fund.

Next, we calculate the working capital fund revenues needed for each area. First, we add together the figures for projected operating expenses and total pilot compensation for each area. Next, we find the preceding year's average annual rate of return for new issues of high-grade corporate securities. Using Moody's data, the number is 3.93 percent.[29] By multiplying the two figures, we obtain the working capital fund contribution for each area, as shown in Table 19.

Table 19— Working Capital Fund Calculation for District Two

	District Two		
Item	Undesignated	Designated	Total
Adjusted Operating Expenses (Step 2)	$935,104	$1,402,651	$2,337,755
Total Target Pilot Compensation (Step 4)	$2,936,680	$2,569,595	$5,506,275
Total 2018 Expenses	$3,871,784	$3,972,246	$7,844,030
Working Capital Fund (3.93%)	$152,161	$156,109	$308,270

F. Step 6: Project needed revenue.

In this step, we add together all of the expenses accrued to derive the total revenue needed for each area. These expenses include the projected operating expenses (from Step 2), the total pilot compensation (from Step 4), and the working capital fund contribution (from Step 5). We show these calculations in Table 20.

Table 20 — Revenue Needed for District Two

[29] See footnote 17

	District Two		
	Undesignated	Designated	Total
Adjusted Operating Expenses (Step 2, See Table 16)	$935,104	$1,402,651	$2,337,755
Total Target Pilot Compensation (Step 4, See Table 18)	$2,936,680	$2,569,595	$5,506,275
Working Capital Fund (Step 5, See Table 19)	$152,161	$156,109	$308,270
Total Revenue Needed	$4,023,945	$4,128,355	$8,152,300

G. Step 7: Calculate initial base rates.

Having determined the needed revenue for each area in the previous six steps, to develop an hourly rate, we divide that number by the expected number of hours of traffic. Step 7 is a two-part process. In the first part, we calculate the 10-year average of traffic in District Two, using the total time on task or pilot bridge hours.[30] Because we calculate separate figures for designated and undesignated waters, there are two parts for each calculation. We show these values in Table 21.

Table 21— Time on Task for District Two (Hours)

Year	Undesignated	Designated
2018	6,150	6,655
2017	5,139	6,074
2016	6,425	5,615
2015	6,535	5,967
2014	7,856	7,001
2013	4,603	4,750
2012	3,848	3,922
2011	3,708	3,680
2010	5,565	5,235
2009	3,386	3,017
Average	5,322	5,192

Next, we derive the initial hourly rate by dividing the revenue needed by the average number of hours for each area. This produces an initial rate, which is necessary

[30] See footnote 18 for more information

to produce the revenue needed for each area, assuming the amount of traffic is as expected. The calculations for each area are set forth in Table 22.

Table 22 — Initial Rate Calculations for District Two

Item	Undesignated	Designated
Needed revenue (Step 6)	$4,023,945	$4,128,355
Average time on task (hours)	5,322	5,192
Initial rate	**$756**	**$795**

H. Step 8: Calculate average weighting factors by Area.

In this step, we calculate the average weighting factor for each designated and undesignated area. We collect the weighting factors, set forth in 46 CFR 401.400, for each vessel trip. Using this database, we calculated the average weighting factor for each area using the data from each vessel transit from 2014 onward, as shown in Tables 23 and 24.[31]

Table 23 — Average Weighting Factor for District Two, Undesignated Areas

Vessel Class/Year	Number of Transits	Weighting factor	Weighted Transits
Class 1 (2014)	31	1	31
Class 1 (2015)	35	1	35
Class 1 (2016)	32	1	32
Class 1 (2017)	21	1	21
Class 1 (2018)	37	1	37
Class 2 (2014)	356	1.15	409.4
Class 2 (2015)	354	1.15	407.1
Class 2 (2016)	380	1.15	437
Class 2 (2017)	222	1.15	255.3
Class 2 (2018)	123	1.15	141.45
Class 3 (2014)	20	1.3	26
Class 3 (2015)	0	1.3	0
Class 3 (2016)	9	1.3	11.7

[31] See footnote 19 for more information

Class 3 (2017)	12	1.3	15.6
Class 3 (2018)	3	1.3	3.9
Class 4 (2014)	636	1.45	922.2
Class 4 (2015)	560	1.45	812
Class 4 (2016)	468	1.45	678.6
Class 4 (2017)	319	1.45	462.55
Class 4 (2018)	196	1.45	284.20
Total	3,814	-	5,023
Average weighting factor (weighted transits/number of transits)	-	1.32	-

Table 24 — Average Weighting Factor for District Two, Designated Areas

Vessel Class/Year	Number of Transits	Weighting factor	Weighted Transits
Class 1 (2014)	20	1	20
Class 1 (2015)	15	1	15
Class 1 (2016)	28	1	28
Class 1 (2017)	15	1	15
Class 1 (2018)	42	1	42
Class 2 (2014)	237	1.15	272.55
Class 2 (2015)	217	1.15	249.55
Class 2 (2016)	224	1.15	257.6
Class 2 (2017)	127	1.15	146.05
Class 2 (2018)	153	1.15	175.95
Class 3 (2014)	8	1.3	10.4
Class 3 (2015)	8	1.3	10.4
Class 3 (2016)	4	1.3	5.2
Class 3 (2017)	4	1.3	5.2
Class 3 (2018)	14	1.3	18.2
Class 4 (2014)	359	1.45	520.55
Class 4 (2015)	340	1.45	493
Class 4 (2016)	281	1.45	407.45
Class 4 (2017)	185	1.45	268.25
Class 4 (2018)	379	1.45	549.55
Total	2,660	-	3,510

Average weighting factor (weighted transits/number of transits)	-	1.32	-

I. Step 9: Calculate revised base rates.

In this step, we revise the base rates so that once the impact of the weighting factors are considered, the total cost of pilotage would be equal to the revenue needed. To do this, we divide the initial base rates, calculated in Step 7, by the average weighting factors calculated in Step 8, as shown in Table 25.

Table 25 — Revised Base Rates for District Two

Area	Initial rate (Step 7)	Average weighting factor (Step 8)	Revised Rate (Initial rate/Average weighting factor)
District Two: Designated	$795	1.32	$602
District Two: Undesignated	$756	1.32	$573

J. Step 10: Review and finalize rates.

In this step, the Director reviews the rates set forth by the staffing model and ensures that they meet the goal of ensuring safe, efficient, and reliable pilotage. To establish that the proposed rates do meet the goal of ensuring safe, efficient and reliable pilotage, the Director considers whether the proposed rates incorporate appropriate compensation for pilots to handle heavy traffic periods, and whether there is a sufficient number of pilots to handle those heavy traffic periods. The Director also considers whether the proposed rates would cover operating expenses and infrastructure costs, and takes average traffic and weighting factors into consideration. Based on this information, the Director is not proposing any alterations to the rates in this step. We propose to modify the text in § 401.405(a) to reflect the final rates shown in Table 26.

Table 26 — Proposed Final Rates for District Two

Area	Name	Final 2019 pilotage rate	Proposed 2020 pilotage rate
District Two: Undesignated	Lake Erie	$531	$573
District Two: Designated	Navigable waters from Southeast Shoal to Port Huron, MI	$603	$602

District Three

A. Step 1: Recognize previous operating expenses.

Step 1 in our ratemaking methodology requires that the Coast Guard review and recognize the previous year's operating expenses (§ 404.101). To do so, we begin by reviewing the independent accountant's financial reports for each association's 2017 expenses and revenues.[32] For accounting purposes, the financial reports divide expenses into designated and undesignated areas. In certain instances, costs are applied to the undesignated or designated area based on where they were actually accrued. For example, costs for "Applicant pilot license insurance" in District One are assigned entirely to the undesignated areas, as applicant pilots work exclusively in those areas. For costs accrued by the pilot associations generally, for example, employee benefits, the cost is divided between the designated and undesignated areas on a *pro rata* basis. The recognized operating expenses for District Three is laid out in Table 27.

[32] These reports are available in the docket for this rulemaking (see Docket # USCG-2019-0736).

In addition to the surcharge adjustment and lobbying expenses described for District One in Section VII A. *Step 1: Recognize previous operating expenses* and the adjustments made by the auditors, as explained in the auditors' reports, which are available in the docket for this rulemaking where indicated in the **ADDRESSES** portion of this document, the Director is proposing one adjustment to District Three's operating expenses. The Director proposes an adjustment to disallow $32,800 in "housing allowance" expenses. The Coast Guard agrees with the IRS that an employer-provided housing allowance is a fringe benefit, and we consider it to be employee compensation. In addition, we expect those appointed as registered pilots pilot to live in the region in which they are employed. We expect that if a pilot chooses to live outside their region of employment, they should have to pay for their accommodations, and this cost should not be passed on to the shippers via the rate. Therefore, we propose not including any housing allowance the district chooses to provide their pilots in the ratemaking calculation.

Table 27 — 2017 Recognized Expenses for District Three

	District Three			
	Undesignated[33] (Area 6)	Designated (Area 7)	Undesignated[34] (Area 8)	TOTAL
Reported Expenses for 2017	Lakes Huron and Michigan	St. Mary's River	Lake Superior	
Operating Expenses				
Other Pilotage Costs				
Subsistence/Travel – Pilot	$237,036	$93,461	$92,458	$422,955
CPA Adjustment	-$11,178	-$4,407	-$4,360	-$19,945
Subsistence/Travel – Applicant	$90,123	$35,535	$35,154	$160,812

[33] The undesignated areas in District Three (areas 6 and 8) are treated separately in Table 27. In Table 28 and subsequent tables, both undesignated areas are combined and analyzed as a single undesignated area.

[34] See footnote 31.

Payroll Taxes - Pilots	$124,088	$48,927	$48,402	$221,417
Payroll Taxes - Applicants	$25,553	$10,075	$9,967	$45,595
License Insurance - Pilots	$15,631	$6,163	$6,097	$27,891
Training - Pilots	$25,830	$10,185	$10,075	$46,090
Training - Applicants	$16,325	$6,437	$6,368	$29,130
Housing Allowance	$18,382	$7,248	$7,170	$32,800
Winter Meeting	$14,795	$ 5,834	$ 5,771	$26,400
Cell Phone Allowance	$26,186	$10,325	$ 10,214	$46,725
Other Pilotage Costs	$49,252	$19,420	$19,211	$87,883
CPA Adjustment	-$3,699	-$1,446	-$1,431	-$6,576
Total Other Pilotage Costs	**$628,324**	**$247,757**	**$245,096**	**$1,121,177**
Pilot Boat and Dispatch Costs				
Pilot boat costs	$397,610	$156,774	$155,092	$709,476
CPA Adjustment	-$27,756	-$10,944	-$10,826	-$49,526
Dispatch costs	$99,705	$39,313	$38,891	$177,909
Payroll taxes	$9,351	$3,687	$3,648	$16,686
Dispatch Employee Benefits	$3,927	$1,548	$1,532	$7,007
Total Pilot and Dispatch Costs	**$482,837**	**$190,378**	**$188,337**	**$861,552**
Administrative Expenses				
Legal - General Counsel	$32,149	$12,676	$12,540	$57,365
Legal - Shared Counsel (K&L Gates)	$18,730	$7,385	$7,306	$33,421
CPA Adjustment	-$5,595	-$2,206	-$2,183	-$9,984
Office Rent	$4,733	$1,866	$1,846	$8,445
Insurance	$3,715	$1,465	$1,449	$6,629
Employee benefits	$76,093	$30,003	$29,681	$135,777
Workers Compensation	$1,513	$597	$590	$2,700
Payroll Taxes	$6,408	$2,527	$2,500	$11,435
Other Taxes	$1,034	$408	$403	$1,845
Admin Travel	$676	$267	$264	$1,207
Depreciation/Auto Leasing/Other	$50,959	$20,093	$19,877	$90,929
Interest	$2,262	$892	$882	$4,036
APA Dues	$20,544	$8,100	$8,013	$36,657
Utilities	$5,335	$2,103	$2,081	$9,519
Admin Salaries	$64,004	$25,236	$24,966	$114,206
Accounting/Professional	$34,390	$13,560	$13,414	$61,364

Fees				
Other	$6,170	$2,433	$2,407	$11,010
Total Administrative Expenses	**$323,120**	**$127,405**	**$126,036**	**$576,561**
Total Operating Expenses (Other Costs + Pilot Boats + Admin)	**$1,434,281**	**$565,540**	**$559,469**	**$2,559,290**
Proposed Adjustments (Director)				
Housing Allowance	-$18,382	-$7,248	-$7,170	-$32,800
Total Director's Adjustments	**-$18,382**	**-$7,248**	**-$7,170**	**-$32,800**
Total Operating Expenses (OpEx + Adjustments)	**$1,415,899**	**$558,292**	**$552,299**	**$2,526,490**

B. Step 2: Project operating expenses, adjusting for inflation or deflation.

Having identified the recognized 2017 operating expenses in Step 1, the next step is to estimate the current year's operating expenses by adjusting those expenses for inflation over the 3-year period. We calculate inflation using the BLS data from the CPI for the Midwest Region of the United States for the 2018 inflation rate.[35] Because the BLS does not provide forecasted inflation data, we use economic projections from the Federal Reserve for the 2019 and 2020 inflation modification.[36] Based on that information, the calculations for Step 1 are as follows:

Table 28—Adjusted Operating Expenses for District Three

	District Three		
	Undesignated	**Designated**	**Total**
Total Operating Expenses (Step 1)	$1,968,198	$558,292	$2,526,490
2018 Inflation Modification (@1.9%)	$37,396	$10,608	$48,004
2019 Inflation Modification (@1.8%)	$36,101	$10,240	$46,341

[35] See footnote 13
[36] See footnote 14

2020 Inflation Modification (@2%)	$40,834	$11,583	$52,417
Adjusted 2020 Operating Expenses	**$2,082,529**	**$590,723**	**$2,673,252**

C. Step 3: Estimate number of working pilots.

In accordance with the text in § 404.103, we estimate the number of working pilots in each district. We determine the number of working pilots based on input from the Western Great Lakes Pilots Association. Using these number, we estimate that there will be 20 working pilots in 2020 in District Three. Furthermore, based on the seasonal staffing model discussed in the 2017 ratemaking (see 82 FR 41466), we assign a certain number of pilots to designated waters and a certain number to undesignated waters, as shown in Table 29. These numbers are used to determine the amount of revenue needed in their respective areas.

Table 29 — Authorized Pilots

	District Three
Maximum number of pilots (per § 401.220(a)) [37]	22
2020 Authorized pilots (total)	20
Pilots assigned to designated areas	4
Pilots assigned to undesignated areas	16

D. Step 4: Determine target pilot compensation benchmark.

In this step, we determine the total pilot compensation for each area. As we are proposing an "interim" ratemaking this year, we propose to follow the procedure outlined in paragraph (b) of § 404.104, which adjusts the existing compensation benchmark by inflation. Because we do not have a value for the employment cost index for 2020, we multiply the 2019 compensation benchmark of $359,887 by the Median PCE Inflation

[37] For a detailed calculation refer to the Great Lakes Pilotage Rates - 2017 Annual Review final rule, which contains the staffing model. See 82 FR 41466, table 6 at 41480 (August 31, 2017).

value of 2.0 percent.[38] Based on the projected 2020 inflation estimate, the proposed compensation benchmark for 2020 is $367,085 per pilot.

Next, we certify that the number of pilots estimated for 2020 is less than or equal to the number permitted under the staffing model in § 401.220(a). The staffing model suggests that the number of pilots needed for District Three is 22 pilots,[39] which is more than or equal to the numbers of working pilots provided by the pilot associations.

Thus, in accordance with § 404.104(c), we use the revised target individual compensation level to derive the total pilot compensation by multiplying the individual target compensation by the estimated number of working pilots for District Three, as shown in Table 30.

Table 30 — Target Compensation for District Three

	District Three		
	Undesignated	Designated	Total
Target Pilot Compensation	$367,085	$367,085	$367,085
Number of Pilots	16	4	20
Total Target Pilot Compensation	**$5,873,360**	**$1,468,340**	**$7,341,700**

E. Step 5: Project working capital fund.

Next, we calculate the working capital fund revenues needed for each area. First, we add together the figures for projected operating expenses and total pilot compensation for each area. Next, we find the preceding year's average annual rate of return for new issues of high grade corporate securities. Using Moody's data, the number is 3.93

[38] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20190320.pdf.
[39] See Table 6 of the Great Lakes Pilotage Rates - 2017 Annual Review final rule, 82 FR 41466 at 41480 (August 31, 2017). The methodology of the staffing model is discussed at length in the final rule (see pages 41476-41480 for a detailed analysis of the calculations).

percent.[40] By multiplying the two figures, we obtain the working capital fund contribution for each area, as shown in Table 31.

Table 31 — Working Capital Fund Calculation for District Three

	District Three		
	Undesignated	Designated	Total
Adjusted Operating Expenses (Step 2)	$2,082,529	$590,723	$2,673,252
Total Target Pilot Compensation (Step 4)	$5,873,360	$1,468,340	$7,341,700
Total 2018 Expenses	$7,955,889	$2,059,063	$10,014,952
Working Capital Fund (3.93%)	$312,666	$80,921	$393,587

F. Step 6: Project needed revenue.

In this step, we add together all of the expenses accrued to derive the total revenue needed for each area. These expenses include the projected operating expenses (from Step 2), the total pilot compensation (from Step 4), and the working capital fund contribution (from Step 5). The calculations is shown in Table 32.

Table 32 — Revenue Needed for District Three

	District Three		
	Undesignated	Designated	Total
Adjusted Operating Expenses (Step 2, See Table 28)	$2,082,529	$590,723	$2,673,252
Total Target Pilot Compensation (Step 4, See Table 30)	$5,873,360	$1,468,340	$7,341,700
Working Capital Fund (Step 5, See Table 31)	$312,666	$80,921	$393,587
Total Revenue Needed	$8,268,555	$2,139,984	$10,408,539

G. Step 7: Calculate initial base rates.

Having determined the revenue needed for each area in the previous six steps, to develop an hourly rate, we divide that number by the expected number of hours of traffic.

[40] Moody's Seasoned Aaa Corporate Bond Yield, average of 2018 monthly data. The Coast Guard uses the most recent complete year of data. See https://fred.stlouisfed.org/series/AAA. (June 12, 2019)

Step 7 is a two-part process. In the first part, we calculate the 10-year average of traffic in District Three, using the total time on task or pilot bridge hours.[41] Because we calculate separate figures for designated and undesignated waters, there are two parts for each calculation. We show these values in Table 33.

Table 33 — Time on task for District Three (Hours)

	District Three	
Year	Undesignated	Designated
2018	19,967	3,455
2017	20,955	2,997
2016	23,421	2,769
2015	22,824	2,696
2014	25,833	3,835
2013	17,115	2,631
2012	15,906	2,163
2011	16,012	1,678
2010	20,211	2,461
2009	12,520	1,820
Average	19,476	2,651

Next, we derive the initial hourly rate by dividing the revenue needed by the average number of hours for each area. This produces an initial rate, which is necessary to produce the revenue needed for each area, assuming the amount of traffic is as expected. The calculations for each area are set forth in Table 34.

Table 34 — Initial Rate Calculations for District Three

	Undesignated	Designated
Revenue needed (Step 6)	$8,268,555	$2,139,984
Average time on task (hours)	19,476	2,651
Initial rate	$425	$807

[41] See footnote 18 for more information

H. Step 8: Calculate average weighting factors by Area.

In this step, we calculate the average weighting factor for each designated and undesignated area. We collect the weighting factors, set forth in 46 CFR 401.400, for each vessel trip. Using this database, we calculate the average weighting factor for each area using the data from each vessel transit from 2014 onward, as shown in Tables 35 and 36.[42]

Table 35— Average Weighting Factor for District Three, Undesignated Areas

Vessel Class/Year	Number of Transits	Weighting factor	Weighted Transits
Area 6			
Class 1 (2014)	45	1	45
Class 1 (2015)	56	1	56
Class 1 (2016)	136	1	136
Class 1 (2017)	148	1	148
Class 1 (2018)	103	1	103
Class 2 (2014)	274	1.15	315.1
Class 2 (2015)	207	1.15	238.05
Class 2 (2016)	236	1.15	271.4
Class 2 (2017)	264	1.15	303.6
Class 2 (2018)	169	1.15	194.35
Class 3 (2014)	15	1.3	19.5
Class 3 (2015)	8	1.3	10.4
Class 3 (2016)	10	1.3	13
Class 3 (2017)	19	1.3	24.7
Class 3 (2018)	9	1.3	11.7
Class 4 (2014)	394	1.45	571.3
Class 4 (2015)	375	1.45	543.75
Class 4 (2016)	332	1.45	481.4
Class 4 (2017)	367	1.45	532.15
Class 4 (2018)	337	1.45	488.65
Total for Area 6	3,504		4,507.05
Area 8			

[42] See footnote 19 for more information

Class 1 (2014)	3	1	3
Class 1 (2015)	0	1	0
Class 1 (2016)	4	1	4
Class 1 (2017)	4	1	4
Class 1 (2018)	0	1	0
Class 2 (2014)	177	1.15	203.55
Class 2 (2015)	169	1.15	194.35
Class 2 (2016)	174	1.15	200.1
Class 2 (2017)	151	1.15	173.65
Class 2 (2018)	102	1.15	117.3
Class 3 (2014)	3	1.3	3.9
Class 3 (2015)	0	1.3	0
Class 3 (2016)	7	1.3	9.1
Class 3 (2017)	18	1.3	23.4
Class 3 (2018)	7	1.3	9.1
Class 4 (2014)	243	1.45	352.35
Class 4 (2015)	253	1.45	366.85
Class 4 (2016)	204	1.45	295.8
Class 4 (2017)	269	1.45	390.05
Class 4 (2018)	188	1.45	272.6
Total for Area 8	1,976	-	2623.1
Combined total	5,480	-	7,130.15
Average weighting factor (weighted transits/number of transits)	-	1.30	-

Table 36 — Average Weighting Factor for District Three, Designated Areas

Vessel Class per Year	Number of Transits	Weighting factor	Weighted Transits
Class 1 (2014)	27	1	27
Class 1 (2015)	23	1	23
Class 1 (2016)	55	1	55
Class 1 (2017)	62	1	62
Class 1 (2018)	47	1	47
Class 2 (2014)	221	1.15	254.15
Class 2 (2015)	145	1.15	166.75
Class 2 (2016)	174	1.15	200.1
Class 2 (2017)	170	1.15	195.5

Class 2 (2018)	126	1.15	144.9
Class 3 (2014)	4	1.3	5.2
Class 3 (2015)	0	1.3	0
Class 3 (2016)	6	1.3	7.8
Class 3 (2017)	14	1.3	18.2
Class 3 (2018)	6	1.3	7.8
Class 4 (2014)	321	1.45	465.45
Class 4 (2015)	245	1.45	355.25
Class 4 (2016)	191	1.45	276.95
Class 4 (2017)	234	1.45	339.3
Class 4 (2018)	225	1.45	326.25
Total	2,296	-	2,977
Average weighting factor (weighted transits per number of transits)	-	1.30	-

I. Step 9: Calculate revised base rates.

In this step, we revise the base rates so that once the impact of the weighting factors are considered, the total cost of pilotage would be equal to the revenue needed. To do this, we divide the initial base rates, calculated in Step 7, by the average weighting factors calculated in Step 8, as shown in Table 37.

Table 37 — Revised Base Rates for District Three

Area	Initial rate (Step 7)	Average weighting factor (Step 8)	Revised Rate (Initial rate/Average weighting factor)
District Three: Designated	$807	1.30	$621
District Three: Undesignated	$425	1.30	$327

J. Step 10: Review and finalize rates

In this step, the Director reviews the rates set forth by the staffing model and ensures that they meet the goal of ensuring safe, efficient, and reliable pilotage. To establish that the proposed rates do meet the goal of ensuring safe, efficient and reliable pilotage, the Director considers whether the proposed rates incorporate appropriate compensation for pilots to handle heavy traffic periods and whether there is a sufficient number of pilots to handle those heavy traffic periods. The Director also considers whether the proposed rates would cover operating expenses and infrastructure costs, and takes average traffic and weighting factors into consideration. Based on this information, the Director is not proposing any alterations to the rates in this step. We propose to modify the text in § 401.405(a) to reflect the final rates shown in Table 38.

Table 38 — Proposed Final Rates for District Three

Area	Name	Final 2019 pilotage rate	Proposed 2020 pilotage rate
District Three: Designated	St. Mary's River	$594	$621
District Three: Undesignated	Lakes Huron, Michigan, and Superior	$306	$327

K. Surcharges

The Coast Guard is not proposing any surcharges in this ratemaking. As stated earlier, we previously used surcharges to pay for the training of new pilots, rather than incorporating training costs into the overall "needed revenue" that is used in the calculation of the base rate, because the surcharge accelerates the reimbursement of certain necessary and reasonable expense. For the 2019 ratemaking, this reimbursement needed to be accelerated because of the large number of registered pilots retiring, and the large number of new pilots being trained to replace them. As the vast majority of registered pilots are not anticipated to retire in the next 20 years, we believe that pilot associations are now able to plan for the costs associated with retirements without relying on the Coast Guard to impose surcharges.

VIII. Regulatory Analyses

We developed this proposed rule after considering numerous statutes and Executive orders related to rulemaking. A summary of our analyses based on these statutes or Executive orders follows.

A. Regulatory Planning and Review

Executive Orders 12866 (Regulatory Planning and Review) and 13563 (Improving Regulation and Regulatory Review) direct agencies to assess the costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying costs and benefits, reducing costs, harmonizing rules, and promoting flexibility. Executive Order 13771 (Reducing Regulation and Controlling Regulatory Costs) directs agencies to reduce regulation and control regulatory costs and provides that "for every one new regulation issued, at least two prior regulations be identified for elimination, and that the cost of planned regulations be prudently managed and controlled through a budgeting process."

The Office of Management and Budget (OMB) has not designated this proposed rule a significant regulatory action under section 3(f) of Executive Order 12866.

Accordingly, OMB has not reviewed it. Because this proposed rule is not a significant regulatory action, it is exempt from the requirements of Executive Order 13771. *See* the OMB Memorandum titled "Guidance Implementing Executive Order 13771, titled 'Reducing Regulation and Controlling Regulatory Costs'" (April 5, 2017). A regulatory analysis (RA) follows.

The purpose of this proposed rule is to establish new base pilotage rates. The Great Lakes Pilotage Act of 1960 requires that rates be established or reviewed and adjusted each year. The Act requires that base rates be established by a full ratemaking at least once every five years, and in years when base rates are not established, they must be reviewed and, if necessary, adjusted. The last full ratemaking was concluded in June of 2018.[43] Table 39 summarizes proposed changes with no cost impacts or where the cost impacts are captured in the proposed rate change. Table 40 summarizes the affected population, costs, and benefits of the proposed rate change. The Coast Guard estimates a decrease in cost of approximately $0.23 million to industry as a result of the change in revenue needed in 2020 compared to the revenue needed in 2019.

Table 39—Proposed Changes with No Costs or Cost Captured in the Proposed Rate Change

[43] Great Lakes Pilotage Rates-2018 Annual Review and Revisions to Methodology (83 FR 26162), published June 5, 2018

Change	Description	Affected Population	Basis for No Cost	Benefits
Working capital fund requirements.	The Coast Guard is proposing to add regulatory text to § 403.110 requiring the pilotage associations keep money allocated to the working capital fund in a separate account and limit the use of the funds to infrastructure expenses.	The 3 pilotage associations.	All three districts opened accounts for the working capital fund in response to a policy letter sent by the Coast Guard in November, 2018; therefore, there is no additional cost as a result of this rulemaking. In addition, based on discussion with the associations, we believe the cost to open these accounts was negligible, as each association was able to open a bank account online with their existing financial institutions with minimal effort. We estimate that any recordkeeping or reporting requirements associated with the working capital fund would also be minimal. The associations must already report and keep records on their infrastructure expense as part of their reporting requirements under § 403.105. We believe any recordkeeping associated with the new bank accounts may be conducted simultaneously with the recordkeeping for the existing accounts, as all accounts are with the same financial institution.	Provides increased transparency and oversight of how the money in the working capital fund is spent and how much each association has allocated for infrastructure expenses.

Address inconsistent terms.	The Coast Guard is proposing to replace the text in § 404.106, "return on investment" with "working capital fund".	The 3 pilotage associations.	The Coast Guard previously renamed "return on investment" as the "working capital fund" in the Great Lakes Pilotage Rates 2017 Annual Review final rule (82 FR 41466); however, this text was not modified in that rulemaking.	Creates consistency across the CFR and reduces confusion.
Target pilot compensation.	The Coast Guard is proposing to change the base pilot compensation benchmark in § 401.405(a) to the 2019 compensation benchmark after adjusting for inflation.	Owners and operators of 266 vessels journeying the Great Lakes system annually, 52 U.S. Great Lakes pilots, and 3 pilotage associations.	Pilot compensation costs are accounted for in the base pilotage rates.	This compensation target achieves the Coast Guard's goals of safety through rate and compensation stability, while promoting recruitment and retention of qualified U.S. registered pilots.

Table 40— Economic Impacts Due to Proposed Changes

Change	Description	Affected Population	Costs	Benefits
Rate and surcharge changes.	Under the Great Lakes Pilotage Act of 1960, the Coast Guard is required to review and adjust base pilotage rates annually.	Owners and operators of 266 vessels transiting the Great Lakes system annually, 52 U.S. Great Lakes pilots, and 3 pilotage associations.	Decrease of $225,658 due to change in revenue needed for 2020 ($27,762,527) from revenue needed for 2019 ($27,988,185) as shown in Table 41 below.	New rates cover an association’s necessary and reasonable operating expenses. Promotes safe, efficient, and reliable pilotage service on the Great Lakes. Provides fair compensation, adequate training, and sufficient rest periods for pilots. Ensures the association receives sufficient revenues to fund future improvements.

The Coast Guard is required to review and adjust pilotage rates on the Great Lakes annually. See Sections IV and V of this preamble for detailed discussions of the legal basis and purpose for this rulemaking and for background information on Great Lakes pilotage ratemaking. Based on our annual review for this rulemaking, we are proposing to adjust the pilotage rates for the 2020 shipping season to generate sufficient revenues for each district to reimburse its necessary and reasonable operating expenses, fairly compensate trained and rested pilots, and provide an appropriate working capital fund to use for improvements. The rate changes in this proposed rule would increase the rates for four areas (District One: Designated, District Two: Undesignated, and all of District Three), and decrease the rates for the remaining two areas (District One: Undesignated, and District Two: Designated). In addition, the proposed rule would not implement a surcharge. These changes lead to a net decrease in the cost of service to shippers. However, because the proposed rates would increase for some areas and decrease for others, the change in per unit cost to each individual shipper would be dependent on their area of operation, and if they previously paid a surcharge.

A detailed discussion of our economic impact analysis follows.

Affected Population

This rule would impact U.S. Great Lakes pilots, the three pilot associations, and the owners and operators of oceangoing vessels that transit the Great Lakes annually. We estimate that there would be 52 pilots working during the 2020 shipping season. The shippers affected by these rate changes are those owners and operators of domestic vessels operating “on register” (engaged in foreign trade) and owners and operators of non-Canadian foreign vessels on routes within the Great Lakes system. These owners and operators must have pilots or pilotage service as required by 46 U.S.C. 9302. There is no minimum tonnage limit or exemption for these vessels. The statute applies only to commercial vessels and not to recreational vessels. U.S.-flagged vessels not operating on register and Canadian “lakers,” which account for most commercial shipping on the Great Lakes, are not required by 46 U.S.C. 9302 to have pilots. However, these U.S.- and Canadian-flagged lakers may voluntarily choose to engage a Great Lakes registered pilot. Vessels that are U.S.-flagged may opt to have a pilot for varying reasons, such as unfamiliarity with designated waters and ports, or for insurance purposes.

The Coast Guard used billing information from the years 2016 through 2018 from the Great Lakes Pilotage Management System (GLPMS) to estimate the average annual number of vessels affected by the rate adjustment. The GLPMS tracks data related to managing and coordinating the dispatch of pilots on the Great Lakes, and billing in accordance with the services. As described in Step 7 of the methodology, we use a 10-year average to estimate the traffic. We used 3 years of the most recent billing data to estimate the affected population. When we reviewed 10 years of the most recent billing data, we found the data included vessels that have not used pilotage services in recent years. We believe using 3 years of billing data is a better representation of the vessel population that is currently using pilotage services and would be impacted by this rulemaking. We found that 457 unique vessels used pilotage services during the years 2016 through 2018. That is, these vessels had a pilot dispatched to the vessel, and billing information was recorded in the GLPMS. Of these vessels, 420 were foreign-flagged vessels and 37 were U.S.-flagged vessels. As previously stated, U.S.-flagged vessels not operating on register are not required to have a registered pilot per 46 U.S.C. 9302, but they can voluntarily choose to have one.

Numerous factors affect vessel traffic, which varies from year to year. Therefore, rather than using the total number of vessels over the time period, we took an average of the unique vessels using pilotage services from the years 2016 through 2018 as the best representation of vessels estimated to be affected by the rates in this rulemaking. From 2016 through 2018, an average of 266 vessels used pilotage services annually.[44] On average, 248 of these vessels were foreign-flagged vessels and 18 were U.S.-flagged

[44] Some vessels entered the Great Lakes multiple times in a single year, affecting the average number of unique vessels utilizing pilotage services in any given year.

vessels that voluntarily opted into the pilotage service.

Total Cost to Shippers

The proposed rate changes resulting from this adjustment to the rates would result in a net decrease in the cost of service to shippers. However, because the rates would increase for some areas and decrease for others, the proposed change in per unit cost to each individual shipper would be dependent on their area of operation, and if they previously paid a surcharge.

The Coast Guard estimates the effect of the rate changes on shippers by comparing the total projected revenues needed to cover costs in 2019 with the total projected revenues to cover costs in 2020, including any temporary surcharges we have authorized.[45] We set pilotage rates so that pilot associations receive enough revenue to cover their necessary and reasonable expenses. Shippers pay these rates when they have a pilot as required by 46 U.S.C. 9302. Therefore, the aggregate payments of shippers to pilot associations are equal to the projected necessary revenues for pilot associations. The revenues each year represent the total costs that shippers must pay for pilotage services. The change in revenue from the previous year is the additional cost to shippers discussed in this rule.

The impacts of the rate changes on shippers are estimated from the district pilotage projected revenues (shown in Tables 8, 20, and 32 of this preamble). The Coast Guard estimates that for the 2020 shipping season, the projected revenue needed for all three districts is $27,762,527.

To estimate the change in cost to shippers from this rule, the Coast Guard compared the 2020 total projected revenues to the 2019 projected revenues. Because we

[45] While the Coast Guard implemented a surcharge in 2019, we are not proposing any surcharges for 2020.

review and prescribe rates for the Great Lakes Pilotage annually, the effects are estimated as a single-year cost rather than annualized over a 10-year period. In the 2019 rulemaking, we estimated the total projected revenue needed for 2019, including surcharges, as $27,988,185.[46] This is the best approximation of 2019 revenues as, at the time of this publication, we do not have enough audited data available for the 2019 shipping season to revise these projections. Table 41 shows the revenue projections for 2019 and 2020 and details the additional cost increases to shippers by area and district as a result of the rate changes on traffic in Districts One, Two, and Three.

[46] 84 FR 20551, see table 36.

Table 41 — Effect of the Rule by Area and District ($U.S.; Non-discounted)

Area	Revenue Needed in 2019	2019 Temporary Surcharge	Total 2019 Projected Revenue	Revenue Needed in 2020	2020 Temporary Surcharge	Total 2020 Projected Revenue	Change in Costs of this Proposed Rule
Total, District One	$9,271,852	$300,000	$9,571,852	$9,201,688	$0	$9,201,688	-$370,164
Total, District Two	$7,864,224	$150,000	$8,014,224	$8,152,300	$0	$8,152,300	$138,076
Total, District Three	$9,802,109	$600,000	$10,402,109	$10,408,539	$0	$10,408,539	$6,430
System Total	**$26,938,185**	**$1,050,000**	**$27,988,185**	**$27,762,527**	**$0**	**$27,762,527**	**-$225,658**

The resulting difference between the projected revenue in 2019 and the projected revenue in 2020 is the annual change in payments from shippers to pilots as a result of the rate change imposed by this proposed rule. The effect of the rate change to shippers varies by area and district. The rate changes, after taking into account the change in pilotage rates, would lead to affected shippers operating in District One experiencing a decrease in payments of $370,164, over the previous year. District Two and District Three would experience an increase in payments of $138,076 and, $6,430 respectively, when compared with 2019. The overall adjustment in payments would be a decrease in payments by shippers of $225,658 across all three districts (a 1-percent decrease when compared with 2019). Again, because the Coast Guard reviews and sets rates for Great Lakes Pilotage annually, we estimate the impacts as single-year costs rather than annualizing them over a 10-year period.

Table 42 shows the difference in revenue by revenue-component from 2019 to 2020, and presents each revenue-component as a percentage of the total revenue needed. In both 2019 and 2020, the largest revenue-component was pilotage compensation (66% of total revenue needed in 2019 and 69% of total revenue needed in 2020), followed by operating expenses (27% of total revenue needed in 2019 and 2020).

Table 42 — Difference in Revenue by Component

Revenue-Component	Revenue Needed in 2019	Percentage of Total Revenue Needed in 2019	Revenue Needed in 2020	Percentage of Total Revenue Needed in 2020	Difference (2020 Revenue - 2019 Revenue)	Percentage Change from Previous Year
Adjusted Operating Expenses	$7,565,310	27%	$7,624,298	27%	$58,988	1%
Total Target Pilot Compensation	$18,354,237	66%	$19,088,420	69%	$734,183	4%
Working Capital Fund	$1,018,638	4%	$1,049,809	4%	$31,171	3%
Total Revenue Needed, without Surcharge	$26,938,185	96%	$27,762,527	100%	$824,342	3%
Surcharge	$1,050,000	4%	$0	0%	-$1,050,000	-100%
Total Revenue Needed, with Surcharge	$27,988,185	100%	$27,762,527	100%	-$225,658	-1%

Note: Totals may not sum due to rounding

Table 43 presents the percentage change in revenue by area and revenue-component, excluding surcharges as they are applied at the district level.[47] The majority of the decrease in revenue is due to the removal of surcharges to cover the cost of applicant pilot training expenses and decreased operating expenses. The change in revenue also accounts for the inflation of pilotage compensation and the net addition of one additional pilot. The target compensation for these pilots is $367,085 per pilot. The addition of this pilot to full working status accounts for $367,085 of the increase ($734,183 is the difference between the revenues needed in 2019 to the revenues needed in 2020, which takes into account the effect of increasing compensation for the other 51 pilots). The remaining amount is attributed to increases in the working capital fund.

[47] The 2019 projected revenues are from the Great Lakes Pilotage Rates - 2019 Annual Review and Revisions to Methodology final rule (84 FR 20551) Tables 15 – 17. The 2020 projected revenues are from tables 8, 20, and 32 of this proposed rule.

Table 43 — Difference in Revenue by Component and Area

Area	Adjusted Operating Expenses			Total Target Pilot Compensation			Working Capital Fund			Total Revenue Needed		
	2019	2020	Percentage Change	2019	2020	Percentage Change	2019	2020	Percentage Change	2019	2020	Percentage Change
District One: Designated	$1,467,171	$1,567,975	6%	$3,598,870	$3,670,850	2%	$199,095	$205,886	3%	$5,265,136	$5,444,711	3%
District One: Undesignated	$1,335,997	$1,045,316	-28%	$2,519,209	$2,569,595	2%	$151,510	$142,066	-7%	$4,006,716	$3,756,977	-7%
District Two: Undesignated	$1,072,441	$935,104	-15%	$2,519,209	$2,936,680	14%	$141,152	$152,161	7%	$3,732,802	$4,023,945	7%
District Two: Designated	$1,455,988	$1,402,651	-4%	$2,519,209	$2,569,595	2%	$156,225	$156,109	0%	$4,131,422	$4,128,355	0%
District Three: Undesignated	$1,703,896	$2,082,529	18%	$5,758,192	$5,873,360	2%	$293,260	$312,666	6%	$7,755,348	$8,268,555	6%
District Three: Designated	$529,817	$590,723	10%	$1,439,548	$1,468,340	2%	$77,396	$80,921	4%	$2,046,761	$2,139,984	4%

Benefits

This proposed rule would allow the Coast Guard to meet the requirements in 46 U.S.C. 9303 to review the rates for pilotage services on the Great Lakes. The rate changes would promote safe, efficient, and reliable pilotage service on the Great Lakes by: (1) ensuring that rates cover an association's operating expenses; (2) providing fair pilot compensation, adequate training, and sufficient rest periods for pilots; and (3) ensuring pilot associations produce enough revenue to fund future improvements. The rate changes would also help recruit and retain pilots, which would ensure a sufficient number of pilots to meet peak shipping demand, helping to reduce delays caused by pilot shortages.

B. Small Entities

Under the Regulatory Flexibility Act, 5 U.S.C. 601-612, we have considered whether this proposed rule would have a significant economic impact on a substantial number of small entities. The term "small entities" comprises small businesses, not-for-profit organizations that are independently owned and operated and are not dominant in their fields, and governmental jurisdictions with populations of less than 50,000.

For the rule, the Coast Guard reviewed recent company size and ownership data for the vessels identified in the GLPMS, and we reviewed business revenue and size data provided by publicly available sources such as Manta[48] and ReferenceUSA.[49] As described in Section VIII.A of this preamble, Regulatory Planning and Review, we found that a total of 457 unique vessels used pilotage services from 2016 through 2018. These vessels are owned by 55 entities. We found that of the 55 entities that own or operate vessels engaged in trade on the Great Lakes that would be affected by this rule, 43 are foreign entities that operate primarily outside the United

[48] See https://www.manta.com/.
[49] See http://resource.referenceusa.com/.

States. The remaining 12 entities are U.S. entities. We compared the revenue and employee data found in the company search to the Small Business Administration's (SBA) small business threshold as defined in the SBA's "Table of Size Standards" for small businesses to determine how many of these companies are small entities.[50] Table 44 shows the North American Industry Classification System (NAICS) codes of the U.S. entities and the small entity standard size established by the SBA.

Table 44 — NAICS Codes and Small Entities Size Standards

NAICS	Description	Small Entity Size Standard
211120	Crude Petroleum Extraction	1,250 employees
238910	Site Preparation Contractors	$15.0 million
488330	Navigational Services to Shipping	$38.5 million
523910	Miscellaneous Intermediation	$38.5 million
532411	Commercial Air, Rail, and Water Transportation Equipment Rental and Leasing	$32.5 million
551111	Offices of Bank Holding Companies	$20.5 million
561510	Travel Agencies	$20.5 million
928110	National Security	Population of 50,000 People

Of the 12 U.S. entities, 10 exceed the SBA's small business standards for small entities. To estimate the potential impact on the 2 small entities, the Coast Guard used their 2018 invoice data to estimate their pilotage costs in 2020. We increased their 2018 costs to account for the changes in pilotage rates resulting from this rule and the Great Lakes Pilotage Rates – 2019 Annual Review and Revisions to Methodology final rule (84 FR 20551). We estimated the change in cost to these entities resulting from this rule by subtracting their estimated 2019 costs

[50] See: https://www.sba.gov/document/support--table-size-standards. SBA has established a "Table of Size Standards" for small businesses that sets small business size standards by NAICS code. A size standard, which is usually stated in number of employees or average annual receipts ("revenues"), represents the largest size that a business (including its subsidiaries and affiliates) may be in order to remain classified as a small business for SBA and Federal contracting programs.

from their estimated 2020 costs. We then compared the estimated change in pilotage costs between 2019 and 2020 with each firm's annual revenue and compared their total estimated 2020 pilotage costs to their annual revenue. In both cases, their estimated pilotage expenses were below 1 percent of their annual revenue. Table 44 presents the calculation of these cost estimates for both entities.

Table 44 — Estimated 2020 Pilotage Costs for Small Entities (Thousands of Dollars)

Entity	2018 Pilotage Expenses	Estimated Change in Pilotage Costs Between 2018 and 2019[51]	Estimated 2019 Pilotage Expenses	Estimated Change in Pilotage Cost Between 2018 and 2019	Estimated 2020 Pilotage Expenses	Estimated Change in Pilotage Expenses from 2019 to 2020
	(a)	(b)	(c)=(a)×(1+(b))	(d)	(e)=(c)×(1+(d))	(f)=(e)−(c)
Small Entity A	$4.75	11%	$5.27	-1%	$5.22	-$0.05
Small Entity B	$148.39	11%	$164.71	-1%	$163.06	-$1.65

In addition to the owners and operators discussed above, three U.S. entities that receive revenue from pilotage services would be affected by this proposed rule. These are the three pilot associations that provide and manage pilotage services within the Great Lakes districts. Two of the associations operate as partnerships, and one operates as a corporation. These associations are designated with the same NAICS code and small-entity size standards described above, but have fewer than 500 employees. Combined, they have approximately 65 employees in total and, therefore, are designated as small entities. The Coast Guard expects no adverse effect on these entities from this rule because the three pilot associations would receive enough revenue to balance the projected expenses associated with the projected number of bridge hours (time on task) and pilots.

[51] 84 FR 20551, see table 37

Finally, the Coast Guard did not find any small not-for-profit organizations that are independently owned and operated and are not dominant in their fields that would be impacted by this rule. We did not find any small governmental jurisdictions with populations of fewer than 50,000 people that would be impacted by this rule. Based on this analysis, we conclude this rulemaking would not affect a substantial number of small entities, nor have a significant economic impact on any of the affected entities.

Based on our analysis, this proposed rule would have a less than 1 percent annual impact on 2 small entities; therefore, the Coast Guard certifies under 5 U.S.C. 605(b) that this proposed rule would not have a significant economic impact on a substantial number of small entities. If you think that your business, organization, or governmental jurisdiction qualifies as a small entity and that this proposed rule would have a significant economic impact on it, please submit a comment to the docket at the address listed in the **ADDRESSES** section of this preamble. In your comment, explain why you think it qualifies and how and to what degree this proposed rule would economically affect it.

C. Assistance for Small Entities

Under section 213(a) of the Small Business Regulatory Enforcement Fairness Act of 1996, Public Law 104-121, we want to assist small entities in understanding this proposed rule so that they can better evaluate its effects on them and participate in the rulemaking. If the proposed rule would affect your small business, organization, or governmental jurisdiction and you have questions concerning its provisions or options for compliance, please contact the person in the **FOR FURTHER INFORMATION** section of this proposed rule. The Coast Guard will not retaliate against small entities that question or complain about this proposed rule or any policy or action of the Coast Guard.

Small businesses may send comments on the actions of Federal employees who enforce, or otherwise determine compliance with, Federal regulations to the Small Business and Agriculture Regulatory Enforcement Ombudsman and the Regional Small Business Regulatory Fairness Boards. The Ombudsman evaluates these actions annually and rates each agency's responsiveness to small business. If you wish to comment on actions by employees of the Coast Guard, call 1-888-REG-FAIR (1-888-734-3247).

D. Collection of Information

This proposed rule would call for no new collection of information under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520). This proposed rule would not change the burden in the collection currently approved by OMB under OMB Control Number 1625-0086, Great Lakes Pilotage Methodology.

E. Federalism

A rule has implications for federalism under Executive Order 13132 (Federalism) if it has a substantial direct effect on the States, on the relationship between the national government and the States, or on the distribution of power and responsibilities among the various levels of government. We have analyzed this proposed rule under Executive Order 13132 and have determined that it is consistent with the fundamental federalism principles and preemption requirements as described in Executive Order 13132. Our analysis follows.

Congress directed the Coast Guard to establish ‘‘rates and charges for pilotage services.’’ See 46 U.S.C. 9303(f). This regulation is issued pursuant to that statute and is preemptive of State law as specified in 46 U.S.C. 9306. Under 46 U.S.C. 9306, a ‘‘State or political subdivision of a State may not regulate or impose any requirement on pilotage on the Great Lakes.’’ As a result, States or local governments are expressly prohibited from regulating within this category. Therefore, this proposed rule is consistent with the fundamental federalism principles and preemption requirements described in Executive Order 13132.

While it is well settled that States may not regulate in categories in which Congress intended the Coast Guard to be the sole source of a vessel's obligations, the Coast Guard recognizes the key role that State and local governments may have in making regulatory determinations. Additionally, for rules with implications and preemptive effect, Executive Order 13132 specifically directs agencies to consult with State and local governments during the rulemaking process. If you believe this rule has implications for federalism under Executive Order 13132, please contact the person listed in the **FOR FURTHER INFORMATION** section of this preamble.

F. Unfunded Mandates

The Unfunded Mandates Reform Act of 1995, 2 U.S.C. 1531-1538, requires Federal agencies to assess the effects of their discretionary regulatory actions. In particular, the Act addresses actions that may result in the expenditure by a State, local, or tribal government, in the aggregate, or by the private sector of $100 million (adjusted for inflation) or more in any one year. Although this proposed rule would not result in such an expenditure, we do discuss the effects of this proposed rule elsewhere in this preamble.

G. Taking of Private Property

This proposed rule would not cause a taking of private property or otherwise have taking implications under Executive Order 12630 (Governmental Actions and Interference with Constitutionally Protected Property Rights).

H. Civil Justice Reform

This proposed rule meets applicable standards in sections 3(a) and 3(b)(2) of Executive Order 12988, (Civil Justice Reform), to minimize litigation, eliminate ambiguity, and reduce burden.

I. Protection of Children

We have analyzed this proposed rule under Executive Order 13045 (Protection of Children from Environmental Health Risks and Safety Risks). This proposed rule is not an economically significant rule and would not create an environmental risk to health or risk to safety that might disproportionately affect children.

J. Indian Tribal Governments

This proposed rule does not have tribal implications under Executive Order 13175 (Consultation and Coordination with Indian Tribal Governments), because it would not have a substantial direct effect on one or more Indian tribes, on the relationship between the Federal Government and Indian tribes, or on the distribution of power and responsibilities between the Federal Government and Indian tribes.

K. Energy Effects

We have analyzed this proposed rule under Executive Order 13211 (Actions Concerning Regulations That Significantly Affect Energy Supply, Distribution, or Use). We have determined that it is not a "significant energy action" under that order because it is not a "significant regulatory action" under Executive Order 12866 and is not likely to have a significant adverse effect on the supply, distribution, or use of energy.

L. Technical Standards

The National Technology Transfer and Advancement Act, codified as a note to 15 U.S.C. 272, directs agencies to use voluntary consensus standards in their regulatory activities unless the agency provides Congress, through OMB, with an explanation of why using these standards would be inconsistent with applicable law or otherwise impractical. Voluntary consensus standards are technical standards (e.g., specifications of materials, performance, design, or operation; test methods; sampling procedures; and related management systems practices) that are developed or adopted by voluntary consensus standards bodies.

This proposed rule does not use technical standards. Therefore, we did not consider the use of voluntary consensus standards. If you disagree with our analysis or are aware of voluntary consensus standards that might apply, please send a comment explaining your disagreement or identifying appropriate standards to the docket using the method listed in the **ADDRESSES** section of this preamble.

M. Environment

We have analyzed this proposed rule under Department of Homeland Security Management Directive 023-01-001-01, Revision 1 (DHS Directive 023-01), Commandant Instruction 5090.1 (COMDTINST 5090.1), and U.S. Coast Guard Environmental Planning Policy (April 2019), which guide the Coast Guard in complying with the National Environmental Policy Act of 1969 (42 U.S.C. 4321-4370f), and have made a preliminary determination that this action is one of a category of actions that do not individually or cumulatively have a significant effect on the human environment. A preliminary Record of Environmental Consideration supporting this determination is available in the docket where indicated under the **ADDRESSES** portion of this preamble. This proposed rule appears to meet the criteria for categorical exclusion (CATEX) under paragraphs A3 and L54 in Table 3-1 of U.S. Coast Guard Environmental Planning Implementing Procedures, which is available in the docket at *www.regulations.gov*. Paragraph A3 pertains to the promulgation of rules, issuance of rulings or interpretations, and the development and publication of policies, orders, directives, notices, procedures, manuals, advisory circulars, and other guidance documents of the following nature: (a) Those of a strictly administrative or procedural nature; (b) Those that implement, without substantive change, statutory or regulatory requirements; or (c) those that implement, without substantive change, procedures, manuals, and other guidance documents; and d) Those that interpret or amend an existing regulation without changing its environmental effect. Paragraph L54 pertains to regulations which are editorial or procedural.

This proposed rule involves: (1) clarifying the rules related to the working capital fund, (2) adjusting the base pilotage rates, and (3) eliminating surcharges for administering the 2020 shipping season in accordance with applicable statutory and regulatory mandates pursuant to the Great Lakes Pilotage Act of 1960. We seek any comments or information that may lead to the discovery of a significant environmental impact from this proposed rule.

List of Subjects

46 CFR Part 401

Administrative practice and procedure, Great Lakes; Navigation (water), Penalties, Reporting and recordkeeping requirements, Seamen

46 CFR Part 403

Great Lakes, Navigation (water), Reporting and recordkeeping requirements, Seamen, Uniform System of Accounts

46 CFR Part 404

Great Lakes, Navigation (water), Seamen

For the reasons discussed in the preamble, the Coast Guard proposes to amend 46 CFR parts 401, 403, and 404 as follows:

PART 401—GREAT LAKES PILOTAGE REGULATIONS

1. The authority citation for part 401 continues to read as follows:

Authority: 46 U.S.C. 2103, 2104(a), 6101, 7701, 8105, 9303, 9304; Department of Homeland Security Delegation No. 0170.1(II)(92.a), (92.d), (92.e), (92.f).

2 Revise §401.405(a) to read as follows:

§401.405 Pilotage rates and charges.

(a) The hourly rate for pilotage service on—

(1) The St. Lawrence River is $757;

(2) Lake Ontario is $462;

(3) Lake Erie is $573;

(4) The navigable waters from Southeast Shoal to Port Huron, MI is $602;

(5) Lakes Huron, Michigan, and Superior is $302; and

(6) The St. Mary's River is $621.

* * * * *

PART 403—GREAT LAKES PILOTAGE UNIFORM ACCOUNTING SYSTEM

3. The authority citation for part 403 continues to read as follows:

Authority: 46 U.S.C. 2103, 2104(a), 9303, 9304; Department of Homeland Security Delegation No. 0170.1(II)(92.a), (92.f).

4. Amend §403.110 by:

(a) Designating the text as paragraph (a); and

(b) Adding paragraph (b).

The addition to read as follows:

§ 403.110 Accounting entities

(a) * * *

(b) Each Association will maintain a separate account called the "Working Capital Fund." Each Association will deposit into the working capital fund an amount each year at least equal to the amount calculated in Step 5, 46 CFR 404.105. Working capital funds may only be used for infrastructure improvements and infrastructure maintenance necessary to provide safe, efficient, and reliable pilot service such as pilot boat replacements, major repairs to pilot boats, non-recurring technology purchases necessary for providing pilot services, or for the acquisition of real property for use as a dispatch center, office space, or pilot lodging. The Director may grant exceptions to the requirements of this paragraph (403.110(b)) upon request by an Association.

PART 404 –GREAT LAKES PILOTAGE RATEMAKING

5. The authority citation for part 404 continues to read as follows:

Authority: 46 U.S.C. 2103, 2104(a), 9303, 9304; Department of Homeland Security Delegation No. 0170.1(II)(92.a), (92.f).

§ 404.106 [Amended]

6. In § 404.106, remove the words "return on investment" and add in their place "working capital fund".

Dated: October 23, 2019.

R. V. Timme,
Rear Admiral, U.S. Coast Guard, Assistant Commandant for Prevention Policy.

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